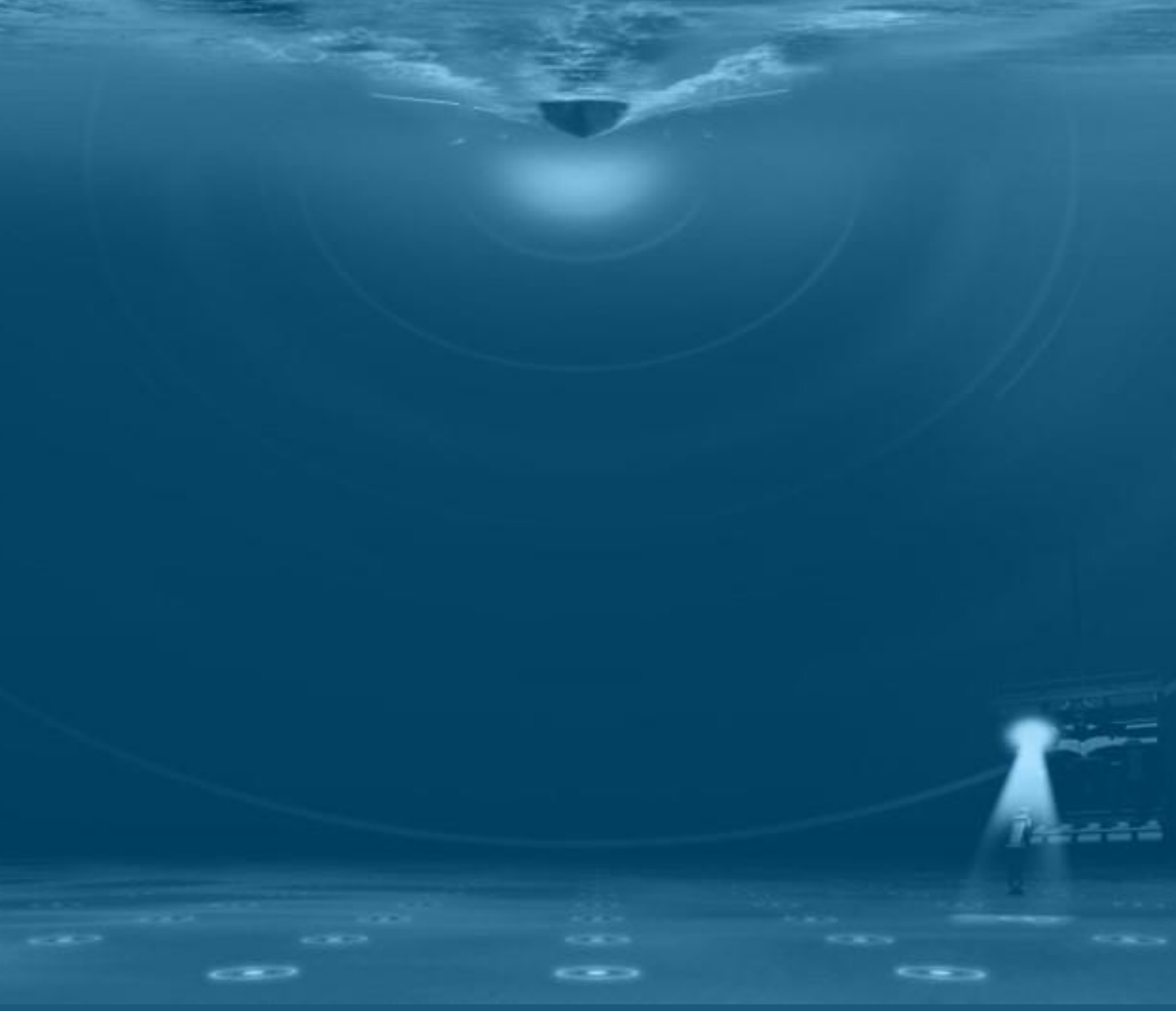


Annual report 2019

magseis fairfield

Content

Highlights

2019 financial results significantly affected by impairments

- Revenue of USD 459.6 million
- Reported EBITDA of USD 21.5 million, including negative special items of USD 32.1 million
- Revenue and EBITDA ended within the guiding ranges given by the new management in October, before the adjustments for additional costs related to reorganization and restructuring and non-cash elements
- Reported EBIT loss of USD 150.4 million, including impairment of USD 106.2 million
- Net loss after tax of USD 151.5 million
- Year-end cash position of USD 53.4 million

Established a pathway to profitability

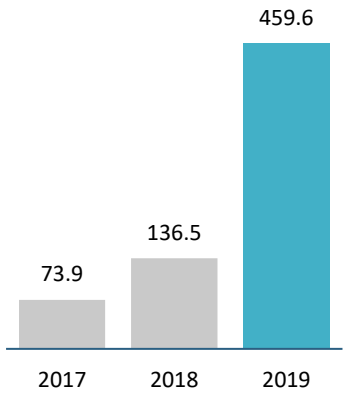
- The new management in the fourth quarter took material steps to reduce costs and align the organization and capital expenditure program to the activity level and financial situation
- Measures included reorganization into contract manufacturing, reduction of number of employees and contracted personnel, co-locations, and reduction of other operational costs
- Capital expenditure plans for 2020 have been reduced by more than 60 percent compared to 2019, consisting only of sustaining and success-based growth capex
- Annual cash cost and capex is expected to be around USD 100 million lower in 2020 compared to 2019
- As necessary steps to complete the turn-around of the company, Magseis Fairfield in February 2020 carried out a private placement of USD 30 million which enables refinancing of the debt by conversion of a term loan to a revolving credit facility with a new covenant structure. The equity issue is subject to approval from an extraordinary general meeting on 6 March 2020.

Improved outlook

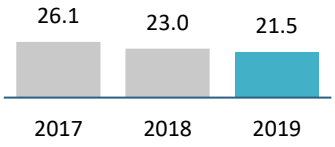
- The market size for Ocean Bottom Nodes is estimated to more than USD 1 billion for 2020
- Promising market development in the Gulf of Mexico, Brazil, the North Sea and the Middle East, which are historically strong areas for Magseis Fairfield
- Build on solid foundation from excellent client feedback related to operational-, QHSE- and technological performance
- Magseis Fairfield's unique technology offering allows for fundamentally reduced costs to acquire OBN data and positions the company well in the markets for Acquisition, Reservoir Monitoring, Multi-Client, and Equipment lease and sale
- Restructuring and strengthening of the balance sheet allows for improved competitiveness and profitable growth potential

USD million

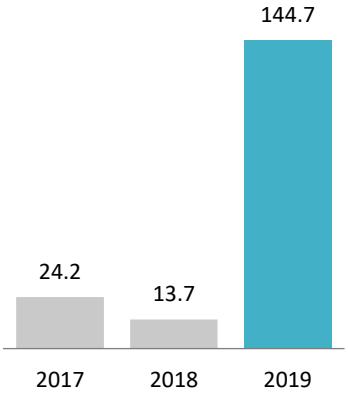
Revenues



EBITDA



Cash flow from operations



Key financials

USD million	Group 2019	Group 2018
Profit and loss		
Revenues	**459.6**	**136.5**
Cost of sales	(374.3)	(86.8)
Gross Profit	85.3	49.7
SG&A and R&D	(63.8)	(26.7)
EBITDA	**21.5**	**23.0**
Of which: special items affecting EBITDA	*(32.1)*	-
Depreciation	(56.7)	(19.1)
Amortization	(8.9)	(0.8)
Impairments	(106.2)	-
EBIT	**(150.4)**	**3.1**
Net financial items	7.0	(2.4)
Net profit/(loss) before tax	(143.4)	0.6
Net profit/(loss)	**(151.5)**	**(2.8)**
Other key figures		
Net cash from operating activities	144.7	13.7
Net cash used in investing activities	(112.6)	(198.8)
Net cash from financing activities	(46.8)	221.4
Total assets	357	527
Equity ratio	52 %	63 %
Cash and cash equivalents	53.4	68.1
Net interest-bearing debt/(cash)	(20.9)	(4.6)

Changes in the Income Statement from 2018 to 2019 primarily reflects the acquisition of Fairfield's seismic technologies businesses (Fairfield) in December 2018, as well as impairments and special items affecting costs and results in 2019.

CEO message

Restructuring to restore profitability

While 2019 was a challenging year of change for Magseis Fairfield, I am positive about the future effects of the restructuring we announced in 2019.

Our revenue and results for the full year were in line with the guidance we gave in October 2019, and as we concluded the year, we had done the necessary restructuring with cuts to SG&A and capital expenditure to set ourselves up as a competitive player in a solid Ocean Bottom Nodes market for 2020 and beyond.

I am pleased with our QHSE performance and to see a positive development for the Total Recordable Case Frequency (TRCF) for the full year.

Large market opportunity

The market is at a tipping point where the potential for increased recovery from known hydrocarbon resources exceeds the potential from new discoveries. Aligned with this, our vision is to be the trusted partner to make Ocean Bottom Nodes the technology of choice for seismic data.

We see a market size of over USD 1 billion for 2020. I am particularly encouraged by the market opportunities we see in the Gulf of Mexico, Brazil, the North Sea and the Middle East. These are historically strong areas for us, and we expect to win our fair share in these markets.

Necessary restructuring

Since starting as CEO on 1 October 2019, we have made a number of necessary changes. Firstly, we needed to put the company on a more viable financial footing, with cuts in operational costs and capital expenditure.

Secondly, we have integrated the manufacturing philosophy across the company and will change to a contract manufacturing setup which materially reduces our fixed cost base.

Thirdly, although we met all financial covenants at year-end 2019, we had to strengthen our balance sheet to be able to continue to invest in our new technology portfolio and deploy new technology crews to the market. As a final necessary step in the restructuring, we carried out a private placement of USD 30 million and a refinancing of our debt in mid-February. The debt refinancing is depending on completion of the equity issue, which in turn is subject to approval by the EGM on 6 March.

Positive backlog development at the end of the year

During the last three months of 2019 we increased our 2020 backlog by USD 74 million to USD 133 million. This brings the total backlog at year-end 2019 to USD 165 million. This backlog was still too low for our liking as we entered 2020 but our progress showed that we can win in the marketplace with increased focus and attention.

Our existing acquisition crew in the Gulf of Mexico has now secured continuous backlog well in to the second half of 2020. In our Reservoir Monitoring and Source business we have received an extension of a multi-year contract to 2024.

We also announced our entry into the Multi-Client business, with a joint project with an established Multi-Client player for a multi-year project in the North Sea, starting late Q1 2020 and lasts to the end of the North Sea season utilizing three vessels. We are very excited about this project and the Multi-Client opportunities in general. It gives us a fourth revenue stream in addition to the established businesses in Acquisition, Reservoir Monitoring and Source, and Equipment lease and sales. This positions us well to achieve our mission to be the leading Ocean Bottom Node company and bring value to our clients, investors, the company and our employees.

The remaining capacity to be sold during the first half of 2020 is the MASS I crew and the second ZXPLR crew. These crews are being tendered on multiple opportunities. Since we currently have no vessel commitments for these crews, we can maintain these at minimal cash cost until the right project has been secured. It shows the strength of our asset light model, where we will only launch these crews on the right acquisition projects for Magseis Fairfield.

Unique client solution enabled by technology differentiation

The company history and future have its foundation in technology differentiation well beyond just the node technology. We offer a Total System Differentiation that allows us to provide a unique solution to our clients, built around our Node technology, our Source technology, our Survey Design solutions, and our People:

- We are unique in that we have two Node technologies we can offer to our clients: Our Z-technology and our MASS-technology. This allows us to offer the right solution to our clients.
- We are also highly differentiated with our Source technology in our Reservoir Monitoring and Source business. This is built on years of extremely close client collaborations to tailor our offering to customer specific reservoir monitoring needs.
- Last but not least, our Survey Design knowledge and experience allows us to offer novel and cost-effective solutions to our clients.
- This is all enabled by the best People in the Ocean Bottom Nodes (OBN) business, who have the client focus to offer the best solutions.

Total System Differentiation not only allows us to offer a unique solution to our clients. It also allows us to fundamentally reduce the cost to acquire a square kilometer of OBN data, which has three positive effects: it allows us to be more competitive, it grows the accessible market since more clients can now afford OBN data, and it grows our returns.

2020 a transition year towards profitable growth and long-term success

Although we have a positive view on the future, we need to be realistic about our expected performance in 2020. This will be a transition year for Magseis Fairfield, given that the restructuring will only come into full effect in the second half of 2020, and that our backlog going into 2020 was low.

I am very confident that the restructuring we have done during the last months has been necessary and crucial to set the company up for profitable growth and success in the longer term. This is supported by the 2020 backlog growth during the fourth quarter 2019 and early 2020, which further supports our view of a solid 2020 Ocean Bottom Nodes market and beyond.

Carel Hooijkaas
CEO Magseis Fairfield

Board of Directors report

Operational review

Strategy and business overview

Magseis Fairfield is a Norwegian geophysical company headquartered in Lysaker outside Oslo, Norway, performing ocean bottom seismic (OBS) operations. The Group has offices in Houston (USA), Warminster (UK), Stockholm (Sweden), Rio de Janeiro (Brazil) and in Singapore, and provides services to customers globally.

The Group provides 3D, 4D, near field and sparse ocean bottom node (OBN) technology, mainly to exploration and production companies within the oil and gas industry.

Magseis Fairfield was created through Magseis ASA's purchase of Fairfield's seismic technologies business and the WGP Group from Fairfield Industries Incorporated, in December 2018. Fairfield was founded in 1974 while Magseis was founded in 2009.

Both Magseis and Fairfield have developed proprietary OBS nodes and handling and deployment systems aimed at significantly improving the efficiency of operations and reduce costs. Fairfield with its range of Znodes using rechargeable batteries and Magseis with its MASS nodes using smaller non-rechargeable batteries. Both node ranges are now part of the Group's offering.

OBS data is so-called four-component (4C) seismic data, collected with one hydrophone and three geophones, and is widely recognized as the highest quality seismic data available today. The Group is reducing the time and costs required to conduct OBN surveys through continuous proprietary technology developments, with the aim to reduce OBN costs to a level where it becomes a widely used tool for both field development and exploration. This holds the potential to increase the value of the market opportunity and position OBN as a competitive alternative to streamer-based seismic in a larger part of the total market.

The Group's main business lines are:

- **Acquisition**, where the Group acquires proprietary data on behalf of clients that obtain full ownership of the data acquired in proprietary surveys
- **Multi-Client**, where the Group acquires data and retains part or full ownership of the data acquired
- **Reservoir Monitoring and Source**, where the Group monitors existing fields on long-term contracts
- **Equipment Sales and Lease**, where the Group sells or rents out nodes and node handling systems to clients interested in running their own data acquisition surveys

The Group's vision is to be the trusted partner to make OBN the technology of choice for seismic data and believes this is feasible through further development of its proprietary technology to enable large scale, efficient and cost effective OBS services.

Management changes

Magseis Fairfield in September appointed industry veteran Carel Hooijkaas as CEO with effect from 1 October 2019. Prior to joining the company, Mr. Hooijkaas was responsible for the Integrated Services Management operations at Schlumberger. He holds more than 25 years of experience in the oilfield services and equipment industry.

This succeeded the appointment of Mark Ivin as CFO with effect from 1 September 2019. Prior to joining the company, Mr. Ivin held the position as CFO of Get, a leading private equity owned telecoms provider in Norway. He brings some 25 years of diverse experience within financial management from three countries across four industries.

Restructuring and reorganization

The new management has been instrumental for the initiation and execution of an extensive restructuring and reorganization program that commenced in the fourth quarter 2019.

The main goals of the restructuring program were to materially reduce the annual cost run rate and capital expenditure to align with the actual activity level and secured backlog.

A significant part of the planned cost savings comes through the integration of different manufacturing philosophies into a common contract manufacturing philosophy, which entails reductions in the number of employees and contracted personnel, closure of smaller offices, and generally reduced operational costs.

Overall, the number of FTEs is being reduced by approximately 120 – or 18 percent – compared to the start of the third quarter 2019.

Relative to 2019, the restructuring and reorganization is expected to reduce operating expenses by approximately USD 30 million with full effect during the second half of 2020, which will improve the profitability and longer-term margin outlook.

As described under Cash Flow and Investments below, the new management also took steps to reduce and postpone planned capital expenditure significantly for the fourth quarter 2019 and the first half 2020, to bring spending more in line with the activity level and the secured backlog. The estimated capital expenditure level for 2020 is USD 35 million, comprising both committed and uncommitted capex, which is a decline of more than 60 percent from 2019.

The restructuring and reorganization entailed significant costs that were charged to the Financial Statements for 2019. These are discussed in more detail under the Financial review below.

Operations in 2019

QHSE performance continued to improve with Total Recordable Case Frequency (TRCF) of 1.21 for the full year, showcasing a positive trend from last year.

Magseis Fairfield worked on a total of 19 Acquisition and Reservoir Monitoring/Source projects in 2019, with surveys in the Gulf of Mexico (GoM), the North Sea, the Middle East and in Asia.

In addition, the Group completed deliveries under a large contract for sale of 17,000 MASS I nodes and four handling systems to a client in Asia.

The Group early in the year successfully completed the world's first ever sparse node deepwater acquisition project in GoM. Upon completion the crew transitioned to a new and more efficient vessel and deployment platform with ROVs and ZXPLR handling systems aboard the multi-purpose offshore vessel REM Saltire. Following solid performance and positive feedback, the crew was booked and completed three more deepwater back-to-back surveys after changing vessels. Since then, the survey has been extended and the crew is currently booked through September 2020.

A ZXPLR node build program was completed towards the end of 2019, and a second ZXPLR crew is now being marketed.

Another step to provide customers with cutting-edge and cost reducing technology was the building of a fully automated, compact and scalable container based ZXPLR node handling system for storage, charging and data harvesting.

The node-on-a-rope Z700 crews have been working on a large contract in the Middle East through most of the year, under challenging conditions on a very active field covering more than 1,000 square kilometres. The acquisition was completed towards the end of the year. One Z700 crew commences a seven-month Multi-Client survey in cooperation with a major seismic company in March 2020, whereas the second Z700 crew is on a lease contract through September 2020.

The MASS I node capacity has been partially rebuilt after the large node sale contract in 2019. The Group performed three parallel MASS I surveys in the first four months of 2019, one of them being the last part of the 3-year campaign in the Red Sea with the node-on-a wire crew. These surveys were followed by two back-to-back surveys in the North Sea where the nodes were first used with an onshore MASS Modular system and deployment with ROVs while the second survey utilized the node-on-the-wire system which had returned from the Red Sea. In the fourth quarter, the MASS I nodes were shipped to Asia for a rental survey with a MASS Modular system and ROVs for deployment. The nodes are now being marketed for projects from the second quarter onwards.

The Group has been working throughout the year on the MASS III project, which holds the potential of a step-change in efficiency compared to existing ocean bottom node technologies. The MASS III production line was established towards the end of 2019, and the project is currently undergoing extensive qualification tests. Pending build-up of sufficient backlog, the plan is to build up to 6,000

nodes before launch of the new MASS III crew towards the end of the year.

The three Reservoir Monitoring/Source crews were fully booked through the summer season in the North Sea, on long-term contracts for 4D/PRM programs. These crews remain in storage through the winter half of the year. The Group was awarded a four-year renewal of a Reservoir Monitoring/Source program in the fourth quarter 2019.

Order backlog

The order backlog stood at USD 165 million at the end of 2019, of which USD 133 million is scheduled for 2020 and USD 32 million in 2021 and beyond. Contracts received in the fourth quarter increased the 2020 backlog by USD 74 million.

Working environment and personnel

At the end of 2019, the Group had a total of 622 FTEs, with 417 employees and 206 contractors. This was an increase from 614 at the end of 2018.

At the end of 2019, the Parent company had a total of 95 FTEs, of which 75 employed and 20 contractors.

The employees counted 82.6 percent men and 17.4 percent women. 178 of the employees were based offshore and 239 onshore.

The sick leave percentage for the group was 0.84 percent for the offshore crew (0.9 percent) and 0.95 percent for the onshore personnel (1.0 percent) in 2019. Sick leave for the parent company, onshore personnel only, was 2.1 percent in 2019 (1.0 percent).

The company recorded approximately 4,960,000 exposure hours in 2019. There were six industry recognized work-related injuries recorded, involving two Magseis Fairfield employees and four subcontractors. Four of these required minor medical care. The resultant Total Recordable Case Frequency (TRCF) was 1.21 for the year, which was an improvement from 2018. Further, the company maintained its ISO 9001:2015 certification, while also obtaining an ISO 45001 certification in Health and Safety.

Magseis Fairfield has adopted guidelines, policies and procedures relating to human rights, employee rights and social matters, prevention of corruption, harassment and discrimination in the working environment and in our employment practices. A statement on Magseis Fairfield's corporate responsibilities involving people, planet and business practice is provided in a separate section later in this annual report.

Financial review

These consolidated financial statements comprise Magseis Fairfield ASA (referred to as the "company" or "parent") and its subsidiaries (referred to as "the Group").

The company and its subsidiaries have functional and presentation currency in United States Dollar (USD). The consolidated financial statements for the Group are presented in United States Dollars (USD). Unless otherwise stated, all financial information presented in USD has been rounded to the nearest thousand and figures in parentheses represent figures for the previous year (2018).

Changes in the Income Statement from 2018 to 2019 primarily reflects the acquisition of Fairfield's seismic technologies businesses (Fairfield) in December 2018, as well as impairments and special items affecting costs and results in 2019.

Revenues

The Group's revenue for 2019 amounted to USD 459.6 million, compared to USD 136.5 million in 2018. The increase primarily reflects the business combination of Magseis, Fairfield and WGP Group in December 2018, as well as revenue from a large node and system sales contract delivered from the fourth quarter 2018 through the third quarter 2019. Revenue related to the large node and system sales contract for MASS I nodes amounted to USD 112 million in 2019.

Contract revenue accounted for 71 percent of Group revenue. This includes revenue from data acquisition programs -mainly in the Gulf of Mexico, Middle East and North Sea- as well as reservoir monitoring/source operations on the Norwegian Continental Shelf. Revenue from equipment sales and leases accounted for 29 percent, mainly reflecting deliveries under the large equipment sales contract for MASS I nodes and node handling systems to a client in Asia. Multi-Client and other revenue made up less than one percent.

Operational costs

Group cost of sales (CoS) amounted to USD 374.3 million in 2019, mainly relating to vessel operation

costs such as time charter, crew cost and fuel, as well as cost of finished goods relating to sale of equipment.

The CoS included special items of USD 16.3 million, comprising USD 2.0 million in severance pay, USD 1.5 million in crew taxes and compliance cost related to a legacy onerous contract, and USD 12.8 million in non-cash items mainly relating to inventory adjustments from Purchasing Price Allocation (PPA) and write-downs of Inventory as a result of the closedown of the US manufacturing operation.

Including these items, the gross profit was USD 85.3 million and the gross margin 18.6 percent for 2019.

In addition to the special items, the gross margin mainly reflects uneven capacity utilization through the year and weak operational performance on several of the data acquisition projects.

In 2018, CoS amounted to USD 86.8 million, generating a gross profit of USD 49.7 million and a gross margin of 36 percent.

Selling, general and administrative expenses (SG&A) amounted to USD 57.2 million in 2019. This included USD 11.4 million in special items, comprising USD 3.5 million in severance pay, USD 6.2 million in other costs related to restructuring and reorganization, and USD 1.6 million in loss on receivable.

SG&A amounted to USD 22.7 million in 2018, including USD 4 million in acquisition fees.

Research and development

The Group's R&D expenses amounted to USD 6.6 million in 2019, including special items of USD 4.4 million in write-offs of development projects/work-in-progress.

In 2018, R&D expenses amounted to USD 4.0 million.

Depreciation, amortization and impairment

Depreciation, amortization and impairments totalled USD 171.9 million in 2019. USD 106.2 million of this reflects impairments in accordance with International Financial Reporting Standard (IFRS) and IAS 36 Impairment of Assets.

Depreciation amounted to USD 56.7 million for the full year, whereas amortization amounted to USD 8.9 million. The latter mainly relates to amortization of excess values allocated to technology and customer relations in the final purchase price allocation (PPA) of the acquisition of Fairfield and WGP in 2018.

The impairments comprise a goodwill impairment of USD 81.1 million that was charged to the Financial Statements for the first nine months 2019, as well as a total USD 25.1 million impairment of Property, Plant and Equipment (PPE) and capitalized development projects.

This goodwill was acquired through the acquisition of Fairfield in 2018, and the impairment reflected accounting judgements following the financial development and assessments of the uncertainty of the amounts and timing of new projects. There was no goodwill left on the balance sheet at the end of the year.

In 2018, depreciation amounted to USD 19.1 million and amortization to USD 0.8 million.

EBITDA

The Group reported an EBITDA of USD 21.5 million for 2019, including negative special items of USD 32.1 million as described under operational costs. USD 17.4 million of the special items had no cash effect.

EBITDA related to the large system sales contract for MASS I nodes amounted to USD 36.3 million.

In 2018, the Group reported an EBITDA of USD 23.0 million, including USD 19 million related to the MASS I node sales contract.

Operating result (EBIT)

The operating result (EBIT) for 2019 showed a loss of USD 150.4 million, including negative special items USD 32.1 million and impairments of USD 106.2 million.

In 2018 the Group reported an operating profit of USD 3.1 million.

Net financial items

Total financial income amounted to USD 14.4 million in 2019, reflecting both revaluation of warrants and reversal of a previously recognized contingent liability of USD 6 million. Total financial

expenses were USD 7.4 million, comprising both interest on debt, reversal of interest charges on contingent liability and interest on financial leases under IFRS 16. Net financial items hence accumulated to USD 7.0 million for the full year.

In 2018, financial income amounted to USD 2.6 million, and financial expenses to USD 5.1 million, resulting in net financial items of negative USD 2.4 million in 2018.

Profit/loss

Net loss before tax was USD 143.4 million in 2019. Income tax amounted to USD 8.2 million, both reflecting nontax deductible impairments, but also provision on uncertain tax position in foreign tax jurisdiction. Net loss after tax was USD 151.5 million.

In 2018, the Group reported a net profit before tax of USD 0.7 million. Net loss after tax was USD 2.8 million, after USD 3.5 million in income tax expense.

Balance Sheet

Total assets for the Group decreased to USD 356.5 million per the end of 2019, from USD 527.3 million at the end of 2018.

The main part of the decrease is explained by impairments as described under 'Depreciation, amortization and impairment', other losses, and a decrease in working capital as a result of lower activity towards the end of the year.

The acquired companies Fairfield and WGP accounted for USD 345.5 million of total assets per the end of 2018, of which USD 93.7 million was goodwill. Following a final Purchase Price Allocation (PPA) adjustment in third quarter 2019, excess values were reallocated from goodwill to technology and customer assets. All goodwill of USD 81.1 million related to the transaction was impaired in third quarter 2019. See note 3 Group structure and business combinations.

Other intangible assets amounted to USD 65.4 million at the end of 2019, down from USD 78.5 million at the end of 2018. In addition to amortization for the year, an impairment charge of USD 4.1 million was recognized.

Property, plant and equipment (PPE) amounted to USD 172.1 million at the end of the year, up from USD 161.3 million at the end of 2018. This reflects significant capital expenditure, mainly in new nodes, which was partly offset by depreciation and impairments.

Total non-current assets hence amounted to USD 237.5 million, compared to USD 320.9 million at the end of 2018.

Current assets amounted to USD 119.0 million, down from 206.4 million at the end of 2018. Cash and cash equivalents decreased to USD 53.4 million from USD 68.1 million.

Inventories decreased to USD 18.9 million from USD 34.2 million, in reflection of a low activity level towards the end of 2019 and write-off of inventory within US manufacturing and in Norway.

Trade receivables decreased to USD 24.4 million from USD 59.1 million, once again in reflection of a lower activity level towards the end of 2019. Other current assets stood at USD 22.3 million, compared to USD 44.9 million.

The Group's equity amounted to USD 184.6 million at the end of 2019, down from USD 333.6 million at the end of 2018. The decrease reflects the losses for the year, which in turn are heavily affected by impairments and negative special items relating to the restructuring and reorganization of the company.

The equity ratio hence decreased to 51.8 percent from 63.3 percent at the end of last year.

Non-current liabilities amounted to USD 30.8 million at the end of 2019, compared to USD 50.8 million at the end of 2018. This comprised interest-bearing liabilities of USD 15.8 million (36.2), non-interest-bearing liabilities of USD 4.3 million (14.7), and obligations under finance lease of USD 10.7 million (0).

The decrease in interest bearing liabilities reflects repayments of debt. The obligations under finance lease reflects the implementation of IFRS 16- Leases with effect from 1 January 2019.

Current liabilities stood at USD 141.1 million at the end of 2019, compared to USD 142.9 million at the end of 2018.

Trade payables decreased to USD 29.0 million from USD 48.0 million at the end of 2018.

The current portion of interest-bearing liabilities was USD 16.7 million, compared to USD 27.3

million, whereas the current portion of obligations under finance leases stood at USD 16.2 million (0). Current tax payable was USD 7.9 million, up from USD 1.9 million.

At the end of 2019, other current liabilities amounted to USD 71.4 million, comprising project accruals, restructuring accruals, warranty accruals and other operational accruals.

At the end of 2018, other current liabilities stood at USD 65.7 million.

The adoption of IFRS 16 has had the following effect on the balance sheet: A total right-of-use asset of USD 19.9 million and a corresponding lease liability of USD 19.9 was established in January 2019. At 31 December 2019 the lease liability was USD 26.9 million, of which USD 10.7 million was non-current and USD 16.2 million current. Adjusting for IFRS 16, the equity ratio would have been 55.9 percent.

Cash Flow and Investments

Cash inflow from operations was USD 144.7 million in 2019, compared to USD 13.7 million in 2018. This reflects both higher cash earnings and a favourable development in net working capital.

Net cash used for investing activities amounted to USD 112. 6 million in 2019. Capital expenditure for equipment amounted to USD 91.2 million, and investment in subsidiaries to USD 22.2 million. Investment in subsidiaries is related to settlement of seller's credit in third quarter and one earn-out obligation related to WGP.

The new management worked to reduce and postpone capital expenditure for the fourth quarter 2019 and first half 2020, to bring spending more in line with actual activity and secured backlog. For estimated capital expenditure level for 2020 is USD 35 million, comprising both committed and planned capex, which is a decline of more than 60 percent from 2019.

In 2018, net cash used for investing activities amounted to USD 196.9 million, whereof USD 163.3 million investment in subsidiaries. The latter mainly reflected the cash portion of the Fairfield acquisition. Capital expenditure for equipment amounted to USD 33.8 million in 2018.

Net cash outflow from financing activities was a negative USD 46.8 million, mainly reflecting down payments of debt of USD 22.4 million and lease liability payments of USD 18.8 million. This compared to a positive USD 221.5 million in 2018, whereof proceeds from issue of share capital accounted for USD 183.8 million.

Funding

Magseis Fairfield remained in compliance with the covenants for its debt funding throughout 2019, with respect to both equity ratio, liquidity and leverage constraints. Please see note 21 for further details.

In February 2020 the company successfully carried out a private placement generating USD 30 million in gross proceeds. The equity issue is subject to approval by the extraordinary General Meeting on 6 March 2020.

This also enabled a refinancing of the company's interest-bearing term loan into a revolving credit facility (RCF) under a new covenant structure. The RCF will be reduced from USD 33.3 million to USD 30 million from 1 June 2020.

Parent company

Magseis Fairfield ASA is the parent company of the Magseis Fairfield Group. In 2019, Magseis Fairfield ASA reported a loss after tax of USD 152.8 million, compared to a loss of USD 1.4 million in 2018. The results were significantly impacted by impairment of shares in subsidiaries.

At year end, Magseis Fairfield ASA had total assets of USD 264.7 million, compared to USD 438.1 million at the end of 2018. The equity ratio was 71.0 percent, compared to 77.2 percent at the end of 2018.

In the 2019 financial statement, Magseis Fairfield ASA has provided a group contribution of USD 10 million to its subsidiary Magseis Operations AS.

Allocation of comprehensive loss

The Board of Directors proposes the following allocation of the reported comprehensive loss:

Transferred from equity USD 152.8 million

As at 31 December 2019, Magseis Fairfield ASA has total equity of USD 187.9 million, compared to USD 338.2 million at the end of 2018.

Reference is made to elsewhere in this report on private placement carried out in February 2020 to strengthen the company's balance sheet and liquidity.

Accounting principles

The consolidated financial statement for 2019 have been prepared and presented in accordance with the International Financial Reporting Standards (IFRS), as approved by the EU. The financial statements for the parent company have been prepared in accordance with the simplified application of IFRS and section 3-9 of the Norwegian Accounting Act.

Going concern

The financial results for the Group were characterised by financial and operational challenges, resulting in significant impairment, write offs and other special items impacting the numbers negatively. Although the group's backlog for 2020 has increased significantly during Q4 2019 and further in the first months of 2020, the current order backlog provides limited support for the 2020 forecast. Significant positive steps are taken in the company's turn-around with restructuring measures and capex and cost cuts implemented. A private placement was undertaken on 13 February 2020, raising NOK 277.4 million, or approximately USD 30 million, in gross proceeds. Tranche 1 of the placement, NOK 125.6 million, has been received and is registered. Tranche 2 is pending approval of Extraordinary General Meeting (EGM) on 6 March 2020. Subject to approval in EGM, the current loan agreement has been refinanced and will be converted to a Revolving Credit Facility (RCF) of USD 30 million with new covenants. Following these steps, the company's liquidity is strengthened, and the company is well positioned for profitable growth.

Management has made its best judgements in its evaluation of the going concern assumption. Although there are uncertainties related to events or conditions that might impact the future cash flows, management is of the opinion that the going concern assumption is appropriate and the accounts are prepared under the going concern assumption.

Risk factors

Magseis Fairfield is exposed 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.

Revenue risk

Magseis Fairfield operates in competitive markets, and a majority of the Group's contracts are obtained through competitive bidding processes. Rapid technological changes may affect the Group's competitive position.

The Group's order book (or 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, which indicates that there can be no assurance that such contracts will be wholly executed by the Group.

Failure of the company to meet customers' contractual terms and conditions may have an adverse effect on the Group's operations and financial position. The Group has experienced delays in certain contracts due to change of scope from the operator, and delayed contract signature. These factors effectively delayed the mobilization period for the project. Furthermore, the company's mobile operations use multiple spot-chartered vessels and remotely operated underwater vehicle ("ROV") equipment and crews, and lack of performance according to plan may lead to significant delay of surveys.

Material breakdown, damage to or total loss of the company's long-term and short-term chartered vessels may have a material adverse effect on the Group's financial and future prospects. The company will from time to time incur class docking, upgrade and repair costs related to the long-term chartered vessel or modular systems, and non-available periods related to transit of vessel or modular systems or other circumstances. This may

have a negative effect on revenues and earnings, which could impact the Group's business.

The Group intends to invest significant amounts in acquisition and processing of seismic data for its Multi-Client data library. No guarantee can be given that the Group will be able to meet expectations neither with respect to how much seismic data it will be able to sell, nor at which price the seismic data will be sold in the future.

Credit risk

Credit risk relates to the risk of non-payments of trade receivables or other receivables, which may adversely impact financial results and liquidity.

The Group's customers are concentrated within the energy industry and may be similarly affected by changes in the industry sentiment. Many of the customers are large and solid oil and gas companies, and the company pays due consideration to the credit quality of potential new clients to minimise the risk during contract negotiations.

In 2019, the company charged the income statement with a USD 1.6 million loss on receivable following settlement of a dispute regarding a project completed in 2018.

Liquidity risk

Liquidity risk is the risk that Magseis Fairfield is not able to meet its payment obligations. The company is dependent on both access to long-term funding and timely payments of receivables from customers, and no assurance can be given with respect to the ability to secure new sources of funding in the event of a cash shortfall.

At the end of 2019, the company had cash and cash equivalents of USD 53.4 million and a net cash position of USD 20.9 million.

The liquidity risk will be reduced in 2020 with the completion of a private placement with gross proceeds of USD 30 million carried out in mid-February 2020. Subject to completion of the private placement, a refinancing of a term loan into a revolving credit facility of USD 30 million will be conducted.

However, the Group's existing or future debt arrangements could limit the Group's liquidity and flexibility in obtaining additional financing in pursuing other business opportunities. If the Group's operating income is not sufficient to service its current or future indebtedness, the Group will be forced to take action such as reducing or delaying its business activities, acquisitions, investments or capital expenditures, restructuring or refinancing its debt or seeking additional equity capital. The Group may not be able to affect any of these remedies on satisfactory terms.

Foreign exchange risk

The Group's functional currency is USD. The Group operates globally and is hence exposed to foreign currency movements. The exposure to foreign exchange risk is partly mitigated through use of USD nominated contracts, and the company currently has no hedging arrangements in place.

Changes in currency exchange rates relative to the USD may affect the USD value of the assets and thereby impact the total return on such assets.

Changes in currency may also affect costs, e.g. salaries paid in local currency. The Group's expenses are primarily in USD, GBP, EUR and NOK.

Currency fluctuations of an investor's currency of reference relative to the USD may adversely affect the value of an investor's investments.

Commodity prices

The company is exposed to fluctuations in the price of certain key commodities such as oil prices, fuel and transportation costs. The company has not established hedging arrangements to mitigate the possible adverse effects of this exposure.

Other business risk

The Group in 2019 initiated an internal restructuring process. There is, however, no guarantee that the restructuring efforts will succeed. Furthermore, the Group cannot be certain that completing the full integration of the Fairfield will result in the expected benefits from anticipated business opportunities, revenue enhancements or growth levels, or that such results can be achieved in the timeframe expected.

Seismic acquisition operations may be exposed to extreme weather, hazardous conditions and activity in the work area. The company's own insurance may not be adequate to cover potential losses.

Reliance upon single source or specialist suppliers for certain electronic and other components leaves the company vulnerable to delays, increased costs or possibly halt in production of nodes due to lack of availability of critical parts. Manufacturing and hence supply of equipment may significantly increase in cost, be delayed, or even stopped due to lack of availability of critical parts or components. In addition, the nodes contain a large number of commodity electronic components which is bought on the world electronics market. Lack of replacement may lead to a time lag where the Group is not able to supply a certain electronic board for the nodes.

Risk related to cyber criminality is increasing globally. This threat is relevant for all devices connected to internet. To protect Magseis Fairfield and the company's assets and IP, necessary precautions and procedures has been taken. The most common attack vector is 'phishing emails'. Magseis Fairfield has taken steps to improve protection of email, improve capabilities to identify ongoing malicious activities and increase employee awareness of cyber threats.

The company is dependent upon its ability to attract and retain personnel with required skill sets and failure to do so may have a material adverse impact on the company's operations and technology development. The Group's personnel are highly sought after in the industry and have been targeted by the Group's competitors for poaching at all levels in the organisation. The company is thus required to meet or exceed industry expected levels.

Claims may be asserted against the Group for the violations of Intellectual Property Rights of third parties, and the allocation of resources to defend such claims as well as the outcome of such disputes may have material adverse effect on the operations, business and financial condition of the company. The company has developed a patent portfolio which is important to the company's operations and business, but it is still possible for third parties to claim that the patents (registered or pending) or activities of the company violate their intellectual property rights.

Since acquiring Fairfield in December 2018, the Company has been involved in a patent lawsuit against Seabed Geosolutions for infringement of four of the Group's U.S. patents. This and other lawsuits and disputes regarding IPR infringement, may force the company to incur substantial costs in defending itself and its IP portfolio.

The Group business is subject to laws and regulations in various jurisdictions, and the requirements of, changes in or violations of such laws or regulations may adversely affect the Group's business and profitability. The Group invests financial and managerial resources to maintain compliance with these laws and regulations, and failure to do so could result in fines or penalties, enforcement actions, claims for personal injury or property damages, or obligations to investigate and remediate contamination. The adoption of laws and regulations that directly or indirectly curtail exploration by oil and gas companies could also materially adversely affect the Group's operations by reducing the demand for the Group's geophysical products and services. The Group may also be affected by new environmental laws or regulations.

Corporate governance

Magseis Fairfield seeks to comply with the Norwegian Code of Practice for Corporate Governance (NUES) of 17 October 2018. A statement on Magseis Fairfield's corporate governance principles and practices is provided in a separate section later in this annual report. Magseis Fairfield did not deviate from any sections of the Code of Practice as at year-end 2019.

Corporate responsibility

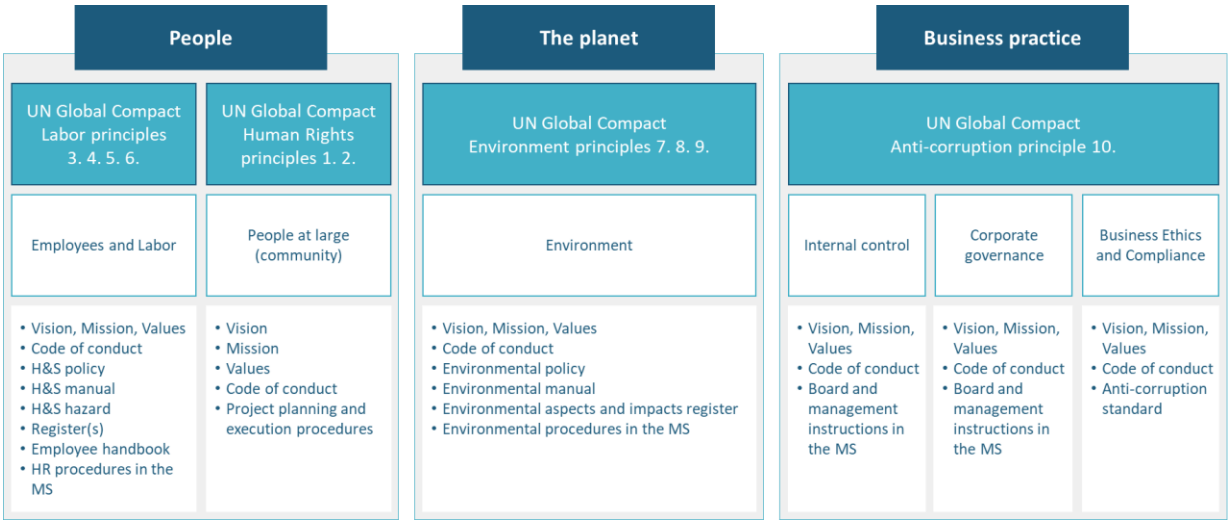
As a global and leading operator in the Ocean Bottom Seismic market, Magseis Fairfield has an opportunity but also a responsibility to commit to high standards relating to working environment and personnel welfare, environmental impact and business practices.

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

The company has adopted guidelines, policies and procedures relating to human rights, employee rights and social matters, prevention of corruption, harassment and discrimination in the working environment and in our employment practices.

Magseis Fairfield has developed a Corporate Social Responsibility (CSR) policy, committing the company to responsible business practices in accordance with United Nations Global Compact. Three focus areas are highlighted:

- People
- Planet
- Business practice



The top-level procedure MP-CEO-012 Corporate Responsibility is aligned with the United Nations Global Compact

People – working environment and personnel welfare

Magseis Fairfield strives to achieve a fair and equitable working environment, free of discrimination, which is documented through the terms and conditions of employment, Health & Safety policies, and a Code of Conduct stating that the Company provides equal employment opportunity for all applicants and employees. Magseis Fairfield adheres to all federal, state and local employment laws and regulations.

The Health and Safety of Magseis Fairfield's employees and others who may come into contact with our activities has been of key focus over the year. The company recorded six industry recognized work-related injuries recorded, involving two Magseis Fairfield employees and four subcontractors. Four of these required minor medical care. The resultant Total Recordable Case Frequency (TRCF) was 1.21 for the year, which was an improvement from 2018. Further, the company maintained its ISO 9001:2015 certification.

Group policies prohibit any unlawful discrimination against employees based on race, colour, national origin, ancestry, religion, sex, gender identity, sexual orientation, marital status, age, disability, genetic information or any other characteristic protected by law, regulation, or ordinance.

With respect to the company's suppliers, this is managed through supplier pre-qualification, monitoring and management. The Company adheres to the UN Global Compact Principles under Human Rights – Principles 1 and 2, and Labour – Principles 3 to 6, which are derived from the Universal Declaration of Human Rights and the International Labour Organization's Declaration of Fundamental Principles and Rights at Work.

On a wider scale, our business's impact on individuals and on the communities affected by our

operations is managed through project planning and execution, hand in hand with the Code of Conduct.

UN Global Compact Principles:

- Human Rights - Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
- Human Rights - Principle 2: make sure that they are not complicit in human rights abuses.
- Labor - Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
- Labor - Principle 4: the elimination of all forms of forced and compulsory labor
- Labor - Principle 5: the effective abolition of child labor
- Labor - Principle 6: the elimination of discrimination in respect of employment and occupation.

The United Nations Global Compact Principles 1 through to 6 are derived from:

- Universal Declaration of Human Rights
- International Labour Organization's Declaration on Fundamental Principles and Rights at Work

The planet – environmental impact

Magseis Fairfield's top-level Environmental policy statement identifies our commitment to the planet, stating that:

The company recognize that all activities have an impact on the environment in the use of raw materials, emissions to air and water, waste generation, and interaction with marine life and habitat. Magseis Fairfield is committed to minimizing this impact for both offshore and land-based activities. This is done by maintaining a program of continual improvement in environmental performance incorporating suitable measurement and monitoring.

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

UN Global Compact Principles

- Environment - Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Environment - Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Environment - Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Business practice

Magseis Fairfield operates with strict focus on fair and ethical business practices. The importance of this is emphasized in one of the three Magseis Fairfield values, Trust. The first part of the related statement of principle is that 'We conduct our business with honesty and integrity'. The company has guidelines in place to ensure this value is met. The purpose of these guidelines is to provide business practice guidance and for such considerations to be integrated in the Company's value creation.

These are managed on an operational level through the Code of Conduct, Anti-corruption compliance standard and a series of operating instructions which together constitute the Magseis Fairfield Management System. This captures the essence of fair business practice, supporting the principle that The Group aspires to be an honest and trustworthy company. Beyond anti-corruption which is the 10th principle of the UN Compact, it also incorporates Internal Control, Corporate governance and Ethics and Compliance.

The previous year's focus on anti-corruption was continued in 2019. Further revision of our anti-corruption manual and launching a comprehensive training program was carried out in 2019 after being put on hold due to the upcoming acquisition of Fairfield. In 2018, the company considered it would be better to wait and roll-out those processes after acquisition closure to ensure best practice is implemented and company-wide training is harmonised across the whole new organisation.

UN Global Compact Principle

- Anti-Corruption - Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Strategy and outlook

2019 has been a challenging year for the company, managing the integration of Magseis and Fairfield in a though and demanding market.

Following unsatisfactory financial development in 2019, the Board of Directors have made major changes. Together with the new top management we have reviewed all significant processes and initiated changes to improve operational control and financial discipline.

Going forward it is of vital importance for the Group to acknowledge and utilize its strengths. In 2019, Magseis Fairfield cemented its position as the leading Ocean Bottom Seismic (OBS) operator by delivering on all projects and strengthening relationships with key customers.

Magseis Fairfield's vision is to be the trusted partner to make Ocean Bottom Nodes (OBN) the technology of choice for seismic data. The company's goal is to significantly reduce the costs of OBS services through organizational, operational and technological improvements, and thereby expand the market opportunity of its services.

The company believes this is feasible through improved utilization and further developments of its proprietary technology, which will enable increasingly efficient and cost effective large-scale OBS services.

While this will require continued investments in people and technology, the progress of the company's plans will by driven by the fundaments of a financial strategy that can be summarized as follows:

- Profitable growth
- A structure to succeed throughout the cycle
- Return on capital employed

Success along these parameters require an organizational setup with a lower cost base and asset light operations, as well as the right capital structure.

Within the financial framework, the company pursues a business strategy focusing on:

- Technology leadership in 4D and sparse node acquisition leadership
- Technology differentiation to grow existing and unlock new markets
- Diversified revenue streams, with Multi-Client services adding to existing business in Acquisition, Reservoir Monitoring/Source, and Technology Sales and leases

To deliver on its vision and goals, the company in 2019 acknowledged the need for a thorough restructuring and reorganization process. Starting with changes in the top management and Board of Directors, the restructuring process has involved significant reductions in operating expenses and capital expenditure, changing of the manufacturing philosophy into a contract manufacturing setup, and a strengthening of the balance sheet and the financial flexibility. The latter comprises both debt refinancing through the replacement of a term loan with a revolving credit facility, and the raising of new equity through a USD 30 million private placement in mid-February 2020. Tranche 2 of the private placement is to be approved by the EGM on 6 March 2020.

Successful restructuring and refinancing efforts allow for increased growth opportunities, both in the form of working capital to accommodate higher volumes, and as success-based investments into proprietary technologies holding the potential to significantly lower the cost of OBN data acquisition. This will further strengthen Magseis Fairfield's competitiveness in the growing OBS market.

The company has now established a clear pathway to profitability, based on a set of performance indicators that will be key to restore margins, profits, and return on invested capital:

- A through-the-cycle target of ~75 percent crew utilization
- An improving outlook for contract pricing and revenue per crew for 2020-21
- A 25-30 percent margin target for gross profit
- An increasing number of multi-client project leads
- Relative to 2019, an annual SG&A reduction of USD 30 million through 2020

The size of the OBS market is estimated at more than USD 1 billion for 2020, with the largest share yet to be tendered. Magseis Fairfield believes that the restructuring and established pathway to profitability will enable the company to leverage its leading position and win its fair share of the business opportunities in Acquisition, Reservoir Monitoring, Multi-Client, and Equipment lease and sale.

While this is positive for the ongoing work to strengthen the project backlog, it should be noted that the backlog was modest going into 2020, and that the cost savings from the ongoing restructuring and reorganization will not take full effect until the second half of the year. 2020 should thus be viewed as a transition year for Magseis Fairfield.

The Board of Directors would like to express our thanks to the employees of Magseis Fairfield for their great effort and contribution during a large and complex integration phase, in a challenging, but eventful year. Going into 2020, the joint efforts of the entire organisation will be indispensable to deliver on the Group's strategy.

Board of Directors and CEO of Magseis Fairfield ASA

Lysaker, 27 February 2020

[Sign.]

Wenche Kjølås
Chair of the Board of Directors

Jan Gateman

Bettina Bachmann

Edvin Endresen

Angela Durkin

Luis Araujo

Charles W Davison Jr

Carel Hooijkaas
CEO

Responsibility statement

Confirmation from the Board of Directors and Chief Executive Officer

The Board of Directors and the chief executive officer of Magseis Fairfield ASA have today considered and approved the annual report and financial statements for the 2019 calendar year ended on 31 December 2019.

We confirm, to the best of our knowledge, that:

- The 2019 financial statements for the group and parent company have been prepared in accordance with all applicable accounting standards
- The information provided gives a true and fair view of the group's and parent company's assets, liabilities, financial position and results
- The Board of Directors report provides a true and fair overview of the development, performance and financial position of Magseis Fairfield ASA and the Group together with a description of the principal risks and uncertainties that they face.

Board of Directors and CEO of Magseis Fairfield ASA

Lysaker, 27 February 2020

[Sign.]

Wenche Kjølås
Chair of the Board of Directors

Jan Gateman

Bettina Regula Bachmann

Edvin Endresen

Angela Durkin

Luis Araujo

Charles W Davison Jr

Carel Hooijkaas
CEO

Corporate governance report

Magseis Fairfield ASA ("**Magseis Fairfield**" or the "**Company**" and when taken together with its consolidated subsidiaries the "**Group**") believes that good and sound corporate governance creates shareholder value and reduces risks by instilling trust and confidence in the Company. Thus, the Group has made a strong commitment to develop high standards of corporate governance.

To Magseis Fairfield, good corporate governance is characterised by clear role distribution between the Company's governing bodies. Furthermore, open and responsible communication and cooperation between the Company's shareholders, the Board of Directors (the Board) and executive management is imperative to secure ample control, but at the same time encourage innovation and entrepreneurship.

1. Implementation and reporting on corporate governance

Magseis Fairfield ASA is a Norwegian public limited company listed on the Oslo Stock Exchange and bases its corporate governance structure on Norwegian legislation and recommended guidelines. The company seeks to comply with the Norwegian Code of Practice for Corporate Governance (the code), last revised on 17 October 2018, which is available on the Norwegian Corporate Governance Committee's website at www.nues.no.

Application of the code is based on the "comply or explain" principle and any deviation from the code is explained under the relevant item. As at 31 December 2019, Magseis Fairfield deviated from the recommendation on one section of the code pertaining to a Board member holding share options (section 11). The principles and implementation of the code are subject to annual reviews by the Board and a statement is included in the annual report in accordance with the requirements of the continuing obligations for listed companies from Oslo stock exchange as well as the Norwegian code.

2. The business

Magseis Fairfield's vision is to reduce Ocean Bottom Seismic ("**OBS**") costs to a level where it increases the addressable market and becomes widely used, not only for field development, but also for exploration. The Company's operations comply with the business objective set forth in its articles of association article 3, which reads:

"The company's business activities include development of geophysical equipment and methods, generation, marketing and sale of exclusive and non-exclusive geophysical exploration and other activities related thereto activities, including investments in such activities".

The Board has defined clear goals, strategies and risk profile for its operations within the scope of the definition of its business, to create value for its shareholders and ensure that its resources are utilised in an efficient and responsible manner. The objectives, strategies and risk profile are subject to annual review by the Board. The company's objectives and strategies are further described in the annual report and on the company's website www.magseisfairfield.com.

Magseis Fairfield has adopted guidelines and procedures relating to human rights, employee rights and social matters, the external environment, environmental impact, working environment, equal treatment, discrimination and prevention of corruption. The purpose of these guidelines is to provide business practice guidance, and for such considerations to be integrated in the Company's value creation.

3. Equity and dividends

Capital adequacy

As at 31 December 2019, the Group's equity amounted to USD 185 million, which corresponds to an equity ratio of 51.8 percent and total liabilities-to-equity ratio of 0.9.

The operational and financial results for Magseis Fairfield in 2019 showed a negative development. To deliver on the vision and goals going forward, the Company acknowledged the need to initiate an

internal restructuring process to cut costs, focus on building order backlog and strengthen the balance sheet. During the last part of 2019, the Company's management initiated an internal restructuring process, followed by a refinancing of its debt and private placement in early 2020.

Magseis Fairfield evaluates on a continuous basis available alternatives to ensure adequate liquidity for its prioritised project activities and to provide the required long-term financial strength and flexibility.

Dividends and dividend policy

Magseis Fairfield is currently in a growth phase and has not yet distributed any dividends. The Board has not proposed any dividend for 2019. Any future decision to pay a dividend will depend on the company's financial position, operating profit and capital requirements.

Authorisations to the Board

At the annual general meeting (AGM) on 22 May 2019, two authorisations were granted to the Board:

- Authorisation to increase the Company's share capital by a total of up to 10 percent of the registered share capital (at the time being NOK 925,852.1) in connection with the Company's share incentive program for its employees. As at 31 December 2019, a total of 186,211 shares have been granted to key employees under the existing authorisation.
- Authorisation to increase the share capital by up to 20 percent of the registered share capital (at the time being NOK 1,851,705.9) to provide the Company with financial flexibility, including investments and acquisitions (but not mergers). The authorisation was not used as at 31 December 2019. However, in connection with the private placement completed early in 2020, the authorisation was used pertaining to tranche 1. For details see stock exchange releases from 13 February 2020.

Both authorisations are valid until Magseis Fairfield's AGM in 2020, and no later than 30 June 2020. There was a separate vote on both authorisations. For supplementary information, reference is made to the minutes of the AGM. As at 31. December 2019, the Board has not been granted any authorisation to acquire treasury shares.

4. Equal treatment of shareholders and transactions with close associates

According to the Norwegian Public Companies Act, the Company's shareholders have pre-emption rights in share offerings against cash contribution. Such pre-emption rights may be set aside, either by the general meeting or by the Board on the basis of an authorisation to the Board. Any resolution to set aside pre-emption rights will be justified by the common interests of the Company and the shareholders, and such justification will be publicly disclosed through a stock exchange notice from the Company. There were no such incidents in 2019. In connection with the private placement early in 2020, the pre-emption rights for shareholders were set aside. Please see stock exchange releases from 13 February 2020

Any transactions in own shares, i.e. a share buy-back programme, will be carried out either through Oslo stock exchange or otherwise at stock exchange prevailing prices. If there is limited liquidity in the Company's shares, the Company will consider other ways to ensure equal treatment of all shareholders. There were no transactions in own shares during 2019.

For significant transactions with related parties, the Board will consider obtaining an independent valuation, unless the agreement shall be approved by the general meeting in accordance with statutory Norwegian law. There were no significant transactions with close associates in 2019. For information regarding related party transactions, see Note 11 in the annual report.

5. Shares and negotiability

Magseis Fairfield has one class of shares, and all shares carry equal voting rights. The Company's shares are freely transferable on the Oslo stock exchange. There are no restrictions on owning, trading or voting for shares pursuant to the Company's articles of association.

6. General Meetings

The general meeting is the Company's highest authority. All shareholders are entitled to submit

items to the agenda, attend, speak and vote at general meetings, but only if the shareholder is registered with the Norwegian Central Securities Depository (VPS) five business days prior to the general meeting (record date). The Annual General Meeting (AGM) is held each year before the end of June. Extraordinary General Meetings (EGM) may be called by the Board at any time

The Board will ensure that the notice, resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting, and that any deadline for shareholders to give notice of their intention to attend shall not be earlier than two days before the meeting. Notice, appendices and minutes of meetings will be available from the Company's website www.magseisfairfield.com.

The Chairman, the CEO and the CFO will be present at general meetings. The auditor and the nomination committee will attend the AGM and any EGM to the extent required by the agenda items or other relevant circumstances. The Board ensures an independent chair for the general meeting.

Shareholders can vote on each individual matter, including on each individual candidate nominated for election. Shareholders who are unable to attend the meeting in person are encouraged to participate by proxy. The Company will prepare a proxy form that permits separate votes for each item up for consideration by the general meeting.

In 2019, Magseis Fairfield held its AGM on 22 May with 51.04 percent of the share capital represented. In addition, an EGM was held on 22 November to appoint a new chair of the Board, with 53.81 percent of the share capital represented.

7. Nomination committee

The nomination committee is governed by the articles of association section 9. The nomination committee shall consist of two to three members elected by the general meeting. The nomination committee elects its own chairman, and the members are elected for a period of up to two years.

As at 31 December 2019, Magseis Fairfield's nomination committee comprises Roar Bekker, Antony Dowd and Anders Farestveit. Roar Bekker is independent of the Board and the executive management. Antony Dowd is President and Chief Executive Officer in Fairfield-Maxwell Ltd. which is the largest shareholder in the Company. Anders Farestveit is the fourth largest shareholder in the Company as at 31 December 2019. The members are elected until the AGM in 2020.

The nomination committee gives its recommendation to the general meeting regarding the election and remuneration of members of the Board, in addition to the election and remuneration of members of the nomination committee. The nomination committee's recommendations are justified on an individual basis. The nomination committee is expected to have contact with the shareholders, the Board and the executive management as part of proposing new candidates for the Board. The instructions for the nomination committee will be presented to the AGM in 2020.

8. Board of Directors: Composition and independence

Pursuant to the Company's articles of association, the Board may consist of up to ten directors, whereof up to three directors can be elected by the employees. The members of the Board, including its Chair, are elected by the general meeting for a period of up to two years and may be re-elected.

The composition of the Board is based on the Company's needs for expertise, capacity and balanced decision making, together with the aim of ensuring that the Board can operate independently of any special interests and that the Board can function effectively as a collegial body. A summary of the competence and background of each individual board member is available on the company's website www.magseisfairfield.com.

All board members are regarded as independent in relation to the Company's executive management and material business contacts. Five of the current board members are considered as independent of the company's main shareholders, please refer to the table below.

Board members are encouraged to hold shares in the Company to promote a common financial interest between the Directors and the shareholders of the Company. The current Board

members hold directly or indirectly 2.55 percent of the outstanding shares in the Company at year-end 2019.

Name	Role	Considered independent of main shareholders	Served since	Term expires	Participation Board Meetings 2019 **	Shares in Magseis Fairfield (direct/ indirect) as at 31 December 2019
Wenche Kjølås	Chairperson	Yes	22.05.2019*	AGM 2021	100%	55,000[1]
Charles W Davison Jr.	Board member	No	12.12.2018	AGM 2021	89%	0
Jan Bertil Gateman	Board member	No	04.09.2009	AGM 2020	94%	4,638,382[2]
Bettina R. Bachmann	Board member	Yes	04.06.2014	AGM 2020	100%	0[5]
Edvin Endresen	Board member	Yes	23.05.2018	AGM 2020	94%	20,000[6]
Angela Durkin	Board member	Yes	22.05.2019	AGM 2020	90%	0[3]
Luis A. Gomes Araujo	Board member	Yes	22.05.2019	AGM 2021	90%	0[4]

**Elected as board member at the AGM in 2019, and then as Chair at the EGM in 2019.*
***Participation in Board meetings as from holding Directorship in 2019.*
[1] Mrs. Kjølås holds her shares in the company indirectly through Jawendel AS. In connection with Private Placement in February 2020, additional 296,038 were acquired, resulting in total number of 351,038 shares held through Jawendel AS.
[2] Mr. Gateman holds his shares in the Company indirectly through Geo Innova AS. In connection with Private Placement in February 2020, additional 1,176,470 were acquired, resulting in total number of 5,814,852 shares held through Geo Innova AS.
[3] On 14 February 2020, Mrs. Durkin acquired 78,892 shares in the company.
[4] On 14 February 2020, Mr. Araujo acquired 45,000 shares in the company.
5 On 21 February 2020, Mrs. Bachman acquired 50,000 shares in the company.
6 On 25 February 2020, Mr. Endresen acquired 40,000 shares in the company.

The Board continuously evaluates conflict of interest and its members independence in each resolution. One of the Board members is hired as an executive consultant and is also the tenth largest shareholder in the Company with ownership of 2.50 percent of the outstanding shares as per year-end 2019.

9. The work of the Board of Directors

Pursuant to the Norwegian Public Companies Act, the Board is responsible for the over-all management of the Company and shall supervise the Company's day-to-day management and its business activities in general.

In addition to legal requirements, the Board has adopted supplementary rules of procedures, which provides further regulation on inter alia the responsibilities of the Board, administrative procedures, quorum requirements, disqualification issues, meeting procedures, the division of work between the Board and the CEO, and confidentiality.

The Board meets several times over the year. The meetings include reviews and discussions related to the Company's strategy, financial development, risk profile and other matters of extraordinary nature or of major importance to the Company. During 2019, the Board held 18 meetings. The working methods for the Board are subject to open discussion.

Between meetings, the Chairman and CEO update the other board members on current matters. Each Board meeting includes a briefing by the CEO followed by a Q&A session. The Board has adopted an annual plan which focuses on the strategic goals of the Group. The Board has also established guidelines for the executive management with a clear division of responsibilities.

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

The Board has adopted guidelines for notification by board members and executive management if they have any material direct or indirect interest in any transaction entered by the Company. This also includes that if one of the board members' interest in a matter does not disqualify him or her from considering the matter, the Company may need to take the individual's interest into consideration when considering the item.

Once per year, the Board conducts an assessment of its performance and expertise, which is presented to the nomination committee. The assessment includes the work of the board, the work of its committees and the contribution made by the various board members.

Board committees

Audit and risk committee

The Company's audit and risk committee is governed by the Norwegian Public Companies Act and a separate instruction adopted by the Board. The audit and risk committee shall consist of minimum two board members. Board members who are also members of the executive management cannot be members of the audit committee. As at 31 December 2019, the audit and risk committee consisted of board members Wenche Kjølås (Chair), Edvin Endresen and Bettina Bachmann, all three considered independent of the executive management.

The main tasks of the audit and risk committee are to;

(i) review management's risk assessment and internal control, as well as annual budget process

(ii) oversee corporate reporting, and act as a preparatory organ for the Board on interim and annual financial reporting processes

(iii) review the external audit process, hereunder maintain ongoing contact with the Company's auditor regarding the audit of the annual accounts and ensure the company has an adequate internal control and risk management, as well as assess and monitor the auditor's independence and potential conflicts of interests and;

(iv) prepare audit committee reporting to the Board after each meeting and report any circumstances with material impact on the company's financial and/or operational situation. The committee is also responsible for reviewing and updating its instructions and evaluate the individual and joint work of the committee.

The audit committee shall have a minimum of five meetings each year, coordinated with the Company's financial reporting schedule. The audit and risk committee held 6 meetings in 2019.

Compensation and talent committee

The Company's compensation and talent committee is governed by a separate instruction adopted by the Board. The members of the committee are appointed by and among the members of the Board and shall be independent of the Company's executive management. As at 31 December 2019, the compensation and talent committee consisted of Wenche Kjølås (Chair), Luis Araujo and Angela Durkin.

The primary purpose of the compensation and talent committee is to assist and facilitate the decision-making of the Board in matters related to remuneration of the executive management, review recruitment policies, career and succession planning and management development plans, and prepare matters relating to other material employment issues with respect to the executive management.

10. Risk management and internal control

The Board, together with the executive management, evaluates the risks related to the Group's operations on a continuous basis. Key risk factors relate to current operations as well as construction of the Group's proprietary system, obtaining contractual counterparties, retaining key staff and general financial risks. In addition, risks inherent in the business plan are monitored: commodity prices, exchange rates, competition, the political and regulatory environment, counter-party performance, and the potential growth of the business and the application of new technology.

Each year, as a minimum, the Board will conduct a thorough assessment of the Company's most important areas of exposure to risk. The annual review is carried out together with the Board's review of the annual accounts, and the Company's auditor is expected to attend this meeting.

The Board, through its work with the financial department and the annual audit process, ensures that the Group has reliable internal control and systems for risk management. The Company's Code of Conduct sets the standard for the behaviour which can be expected internally and externally by anyone employed by or associated with Magseis Fairfield and includes guidance on how to report any concerns related to illegal or unethical conduct.

Magseis Fairfield prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), which are intended to give a true and fair view of the company's and the group's assets, liabilities, financial position and results of operations. The Board is presented with and approves the annual budget/forecast at the end of the preceding financial year or in the beginning of the commencing financial year. Thereafter, the Board is presented with regular updates and reports identifying material variations from the approved budget/forecast. Explanations are obtained for material variances. The Board also approves interim financial statements on a quarterly basis, based on a review together with the executive management.

11. Remuneration of the Board of Directors

The remuneration of the Board is decided by the general meeting, based on a recommendation from the nomination committee. The proposal from the nomination committee is submitted to the Company's shareholders together with the notice for the AGM.

The remuneration of the Board reflects the responsibility and competence of the Directors, as well as the time spent and complexity of the business of the Group. Board members who participate in Board committees receive additional compensation for this. The remuneration is not linked to the Company's performance and does not contain any share options. Detailed information on the remuneration of the Board members is specified in note 31 in the annual report.

Board members and/or companies with which they are associated should not take on other assignments than the directorship for the Company, in order to maintain independent. However, if they do, this shall be disclosed to the full board and remuneration for such additional duties will be approved by the Board.

12. Remuneration of the executive personnel

The Board has prepared a policy with key principles for remuneration of the CEO and executive management.

The components of the remuneration of senior executives includes a base salary, variable bonus, participation in share programs and pension schemes. The total remuneration shall ensure that Magseis Fairfield attracts, motivates, retains and rewards senior executives with desired skills and experience, as well as ensures alignment with the long-term interests of the Company's shareholders.

In 2012 Magseis established a share option programme for executive management and key personnel. In 2018 the share option programme was replaced with Restricted Stock Unit (RSU) and Performance Stock Unit (PSU) programs, but the share option programme will roll until it is finished as per 1 March 2021. The various share programs are intended to incentivise performance and are based on quantifiable factors over which the employee in question has influence. The performance related remuneration is subject to an absolute limit. Details on the share option programme and the RSU and PSU programs can be found in the AGM notice document for 2019, as well as in the annual report.

The Board's statement on remuneration principles for senior executives was presented to and adopted by the AGM in 2019. The statement was presented for a consultative vote, except for the part regarding guidelines for share-based incentives which were subject to a separate vote.

13. Information and communications

Communication with shareholders, investors and analysts is a high priority for Magseis Fairfield. The Company believes that objective and timely information to the market is a prerequisite for a fair valuation of the Group, and in turn, the generation of shareholder value.

The Board has adopted an investor relations policy, to clarify roles and responsibilities related to financial reporting and regulate contact with shareholders and the investor market. The policy is based on openness and considers equal treatment of all market participants. The CEO and the CFO are responsible for investor and shareholder relations outside general meetings. As a rule, no such communication shall be conducted within a two-week period prior to the disclosure of the interim reporting. In addition, the Board has adopted instructions pertaining to the handling of inside information, in which the company's obligations and procedures as a stock exchange listed company are explained.

Interim reports are provided on a quarterly basis, in accordance with the Oslo stock exchange's recommendation. Magseis Fairfield provides presentations in connection with the company's interim reports, to provide an overview of the operational and financial developments, market outlook and the company's prospects. All information distributed to the Company's shareholders will be provided in English and published on the Company's webpage (www.magseisfairfield.com) at the same time as it is sent to the shareholders.

14. Take-overs

Magseis Fairfield's articles of association do not contain any restrictions, limitations or defence mechanisms against take-over bids, nor have other measures been implemented to hinder the acquisition of shares in the Company.

In accordance with the Securities Trading Act and the Code, the Board has adopted guidelines for how it shall act in the event of a takeover bid. In the event of an offer, the Board shall ensure that the company's shareholders are treated equally, and that the company's activities are not unnecessarily interrupted. Furthermore, the Board will not seek to hinder or obstruct takeover bids for Magseis' activities or shares. Any agreement with the bidder that acts to limit the Company's ability to arrange other bids for the Company's shares will only be entered into where the Board believes it is in the common interest of the Company and its shareholders. Any transaction that is in effect a disposal of the Company's activities should be decided by the general meeting.

Information about agreements entered into between the Company and the bidder that are material to the market's evaluation of the bid will be publicly disclosed no later than at the same

time as the announcement that the bid will be made is published.

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

15. Auditor

The Company's statutory auditor is Deloitte AS. The auditor is appointed by the general meeting and is regarded as independent of the Company. The Board will from time to time evaluate the audit arrangement for the Company.

The Board requires that the auditor participates in meetings of the audit and risk committee and in meetings of the Board that deal with the annual accounts. The auditor shall present to the Board a report outlining the audit activities in the previous fiscal year and highlight the areas that caused the most attention or discussions with management, together with a plan for the work related to the Group's audit. In connection with the annual audit, the Board also requires the auditor to review the Company's internal control procedure, including weaknesses identified and proposals for improvement. At least once per year, the Board meets with the Company´s auditor without any members of the executive management present.

The Board has established guidelines for the use of the auditor by the executive management for services other than the audit, in order to prevent any potential conflicts of interest and not put the auditor's integrity and independence at risk.

The remuneration of the auditor is approved by the AGM. The Board will inform the general meeting about the fees paid to the auditor for services other than the annual audit and the details are given in notes to the annual report. For more information about remuneration to the auditor, see note 8 in the 2019 financial statements.

Magseis Fairfield
Consolidated Financial Statements

Consolidated statement of comprehensive income

USD thousands	Note	2019	2018
Revenue and other income			
Revenue and other income	5,6	459 625	136 477
Operating expenses			
Cost of sales	7	(374 308)	(86 764)
Research and development expenses	8	(6 579)	(3 995)
Selling, general and administrative costs and other expense	8	(57 233)	(22 705)
Depreciation and amortization	13,14	(65 646)	(19 936)
Impairment	15	(106 245)	-
Total operating expenses		(610 011)	(133 400)
Operating Profit/(Loss)		(150 386)	3 077
Financial income and expenses			
Financial income	9	14 394	2 628
Financial expenses	9	(7 373)	(5 058)
Net financial income/(expenses)		7 021	(2 430)
Net Profit/(Loss) Before Tax		(143 365)	647
Income tax expense	10	(8 176)	(3 468)
Net Profit/(Loss)		(151 541)	(2 821)
Basic earnings/(loss) per share (USD) attributable to the ordinary equity	12	(0.82)	(0.04)
Diluted earnings/(loss) per share (USD) attributable to the ordinary equity	12	(0.82)	(0.04)
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income/(loss) for the period		(151 541)	(2 821)

Consolidated statement of financial position

As of 31 December

USD thousands	Note	2019	2018 (restated*)
Non-current assets			
Goodwill	14,15	-	81 131
Property, Plant and Equipment	13,15	172 091	161 289
Other intangible assets	14,15	65 406	78 480
Total non-current assets		237 496	320 900
Current assets			
Cash and cash equivalents	17	53 432	68 110
Trade receivables	19	24 353	59 128
Inventories	18	18 928	34 247
Other current assets	20	22 310	44 925
Total current assets		119 021	206 410
Total assets		356 518	527 310
Equity			
Shareholders' equity			
Share capital	4	1 167	1 166
Share premium	4	382 148	382 152
Other equity		(198 721)	(49 744)
Total equity attributable to equity holders of the Company		184 594	333 573
Non-current liabilities			
Lease liabilities	16,22	10 707	9
Interest bearing liabilities	21,22	15 824	36 175
Non-interest-bearing liabilities	21,22	4 263	14 662
Total non-current liabilities		30 794	50 846
Current liabilities			
Trade payables		29 003	48 037
Current tax payable	10	7 895	1 855
Current portion of interest-bearing liabilities	21,22	16 667	27 301
Current portion of lease liabilities	21,22	16 195	-
Other current liabilities	22,23	71 369	65 698
Total current liabilities		141 129	142 891
Total liabilities		171 923	193 737
Total equity and liabilities		356 518	527 310

* *Due to final Purchase Price Allocation (PPA), see note 3 for more information.*

Board of Directors and CEO of Magseis Fairfield ASA

Lysaker, 27 February 2020

[Sign.]

Wenche Kjølås
Chair of the Board of Directors

Jan Gateman

Bettina Bachmann

Edvin Endresen

Angela Durkin

Luis Araujo

Charles W Davison Jr

Carel Hooijkaas
CEO

Consolidated statement of changes in equity

USD thousands	Share capital	Share premium reserve	Share based payments reserve	Other equity	Total
Balance at 1 January 2018	438	141 486	3 284	(50 168)	95 040
Profit/(loss)	-	-	-	(2 821)	(2 821)
Other comprehensive income	-	-	-	-	-
Share issuance 1 February	40	14 229	-	-	14 269
Transaction costs	-	(1 351)	-	-	(1 351)
Share issuance 21 February	68	24 244	-	-	24 312
Transaction costs	-	(101)	-	-	(101)
Share issuance 17 December	428	144 814	-	-	145 243
Transaction costs	-	(6 146)	-	-	(6 146)
Share issuance 19 December	192	64 975	-	-	65 168
Share-based payments (options)	-	-	(40)	-	(40)
Balance at 31 December 2018	1 166	382 152	3 244	(52 988)	333 573
Balance at 1 January 2019	1 166	382 152	3 244	(52 988)	333 573
Share issuance 14 January	-	4	-	-	4
Transaction costs	-	(1)	-	-	(1)
Share based payments	-	-	13	-	13
Profit/(loss) for the period	-	-	-	(11 164)	(11 164)
Balance 30 March 2019	1 166	382 155	3 257	(64 152)	322 426
Profit/loss for the period	-	-	-	9 724	9 724
Share issuance	1	(6)	-	-	5
Share based payments	-	-	1 465	-	1 465
Other adjustments	-	-	-	(3)	(3)
Balance 30 June 2019	1 167	382 148	4 722	(54 430)	333 608
Share based payments	-	-	428	-	428
Profit/(loss) for the period	-	-	-	(104 136)	(104 136)
Balance at 30 September 2019	1 167	382 148	5 150	(158 566)	229 900
Share based payments	-	-	634	-	634
Profit/(loss) for the period	-	-	-	(45 964)	(45 964)
Other adjustments	-	-	-	25	25
Balance at 31 December 2019	1 167	382 148	5 784	(204 505)	184 594

Consolidated statement of cash flow

USD thousands	Note	Full Year 2019	Full Year 2018
Cash flows from operating activities			
Profit/(loss) before tax		(143 364)	647
Income tax and withholding tax paid	10	(4 332)	(2 904)
Depreciation, amortization and impairment	13,14,15	171 892	19 498
Share-based payments expense	30	2 540	(40)
Financial expense	9	7 373	1 523
Financial income	9	(14 394)	(492)
Cost of sales of nodes	7	29 058	9 221
(Increase)/decrease in current assets		91 961	(43 033)
Increase/(decrease) in current liabilities		4 007	29 313
Net cash flow from operating activities		144 740	13 732
Cash flows from investing activities			
Interest received	9	735	182
Acquisition of equipment and prepayments	13,14	(91 204)	(33 765)
Investment in subsidiaries	3	(22 170)	(163 263)
Net cash flow from investing activities		(112 639)	(196 845)
Cash flows from financing activities			
Proceeds from loan	21,22	-	50 027
Down payments of interest-bearing liabilities	21,22	(22 374)	-
Principal elements of lease payments	16,22	(18 775)	(4 033)
Proceeds from issue of shares	4	5	183 823
Expenses related to issue of shares	4	(7)	(7 597)
Interest paid	9	(5 629)	(772)
Net cash flow from financing activities		(46 780)	221 447
Net change in cash and cash equivalents		(14 678)	38 335
Cash and cash equivalents at 1 January	17	68 110	29 776
Cash and cash equivalents at 31 December	17	53 432	68 110

Notes to the consolidated financial statements

1. Company information

Magseis Fairfield provides 3D, 4D, near field and sparse node ocean bottom node (OBN) technology, mainly to exploration and production companies within the oil and gas industry.

Magseis Fairfield (the Group) consists of Magseis Fairfield ASA and its subsidiaries. Magseis Fairfield ASA is a public limited company incorporated in Norway. The Company's registered office is at Strandveien 50, Lysaker. The consolidated financial statements of Magseis Fairfield ASA (referred to as the Company or Parent) incorporate the financial statements of the company and its subsidiaries collectively referred to as "the Group".

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union, their interpretations adopted by the International Accounting Standards Board (IASB) and the additional requirements of the Norwegian Accounting Act as of 31 December 2019.

The consolidated financial statements were authorized for issuance by the Board of Directors and the Chief Executive Officer (CEO) on 27 February 2020. The consolidated financial statements will be presented for approval at the Annual General Meeting on 23 April 2020. Until this date the Board of Directors have the authority to amend the financial statements.

2.2 Financial reporting principles

The relevant financial reporting principles are described in each note to the consolidated financial statements. Magseis Fairfield focuses on describing the reporting within the IFRS framework rather than repeating the actual text of the standard.

2.3 Basis of measurement

The consolidated balance sheet has been prepared on the historical cost basis except for certain financial liabilities as presented in note 27 measured at fair value on each reporting date. The financial information presented in United State Dollars (USD) has been rounded to the nearest thousand (USD thousand), therefore the subtotals and totals in some tables may not equal the sum of the amounts shown. Certain comparative figures have been adjusted to conform to the presentation adopted in the current year.

2.4 Going Concern

The financial results for the Group were characterised by financial and operational challenges, resulting in significant impairment, write offs and other special items impacting the numbers negatively. Although the group's backlog for 2020 has increased significantly during Q4 2019 and further in the first months of 2020, the current order backlog provides limited support for the 2020 forecast. Significant positive steps are taken in the company's turn-around with restructuring measures and capex and cost cuts implemented. A private placement was undertaken on 13 February 2020, raising NOK 277.4 million, or approximately USD 30 million, in gross proceeds. Tranche 1 of the placement, NOK 125.6 million, has been received and is registered. Tranche 2 is pending approval of Extraordinary General Meeting (EGM) on 6 March 2020. Subject to approval in EGM, the current loan agreement has been refinanced and will be converted to a Revolving Credit Facility (RCF) of USD

30 million with new covenants. Following these steps, the company's liquidity is strengthened, and the company is well positioned for profitable growth.

Management has made its best judgements in its evaluation of the going concern assumption. Although there are uncertainties related to events or conditions that might impact the future cash flows, management is of the opinion that the going concern assumption is appropriate and the accounts are prepared under the going concern assumption.

2.5 Consolidation

The consolidated financial statements comprise the parent company Magseis Fairfield ASA and its subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.6 Functional and presentation currency

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' and all other Group entities functional currency and the Group's presentation currency.

2.7 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within financial items. All other foreign exchange gains and losses are presented within operating profit.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

2.8 Statement of cash flows

The statement of cash flows is presented according the indirect method. Cash and cash equivalents include cash and other short-term cash convertible investments.

2.9 Significant judgements and critical estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions each reporting period that affect the income statement and balance sheet. The accounting estimates will seldom precisely match actual results, and changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. Management believes the underlying assumptions are appropriate.

The main areas where significant judgements and critical estimates have been made are described in each of the following notes:

- Note 6 Revenue from customer contracts
- Note 10 Income Tax
- Note 13 Property, Plant and Equipment
- Note 15 Impairment of non-current assets
- Note 16 Leases
- Note 18 Inventories
- Note 23 Other current liabilities

2.9 New Financial Reporting Standards

IFRS 16 Leases was implemented on January 1 2019. The implementation principles, and the financial statement effects are described in note 16 Leases.

The Group has also adopted the Annual Improvements to IFRS Standards 2015-2017 Cycle with effective date 1 January 2019, of which relevant for the Group in periods presented:

IFRS 3 Business Combinations – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.

IFRIC 23 — Uncertainty over Income Tax Treatments, clarified the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

3. Group structure and business combinations (final PPA)

3.1 Financial Reporting Principles

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred;
- Liabilities incurred to the former owners of the acquired business;
- Equity interests issued by the Group;
- Fair value of any asset or liability resulting from a contingent consideration arrangement; and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred. Goodwill is recognized as the excess of the consideration transferred and the acquisition-date less the fair value of the net identifiable assets acquired is recorded. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability.

Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss. If the business combination is achieved in stages, the acquisition date carrying

value of the acquirer's previously held equity interest in the target is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

3.2 Business combinations – Fairfield, final purchase price allocation (PPA)

Magseis ASA acquired Fairfields' seismic technologies businesses on 18 December 2018, comprising all of the shares of the newly established Magseis FF LLC in the USA (carve out entity) and all of the shares of Fairfield International Limited, being the parent company for the WGP Group in the UK. The rationale for the acquisition is to create the technology leader in the new generation of marine seismic and establish a global scale and reach for the integrated business.

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

The consideration paid at closing for these acquisitions was settled by USD 166.2 million in cash and the issuance of 33.5 million Magseis shares to Fairfield valued at USD 65.2 million. The consideration was financed by USD 50 million in new debt financing and USD 115 million of new equity capital. Subsequent working capital adjustment to the purchase price was settled in 2019. The total consideration for Magseis Fairfield LLC including working capital adjustments was USD 236 million of which USD 9 million were settled in 2019. Included in the consideration was also an estimate for a contingent consideration of USD 7.4 million. The estimate is related to a profit-sharing arrangement for the 2019 Al Shaheen seismic contract from which the margin will be split 40/60 between buyer and seller. The total consideration for the WGP Group including working capital adjustments was USD 22 million, where all were settled in cash with USD 3 million in 2019.

A preliminary allocation (PPA) was performed as at 18 December 2018, pending detailed review in particular of the property, plant and equipment (PPE) acquired in the transaction. The PPA below is final. Following finalization of the PPA, adjustments were made to the initial allocation of excess value. Excess value not allocated to specific assets were classified as goodwill. The 2018 balance sheet has been restated to reflect the final PPA.

USD millions	Fair value recognised at acquisition Magseis FF LLC	Fair value recognised at acquisition WGP Group
Assets		
Property, plant and equipment	68	13
Technology	60	2
Customer relations	9	3
Cash and cash equivalents	-	3
Inventory	29	1
Trade receivable	24	4
Other current assets	24	1
Acquired assets	214	27
Liabilities		
Other non-current financial liabilities	-	(4)
Trade payables	(27)	(3)
Other current liabilities	(23)	(7)
Acquired liabilities	(50)	(14)
Net identifiable assets and liabilities to fair value	**164**	**13**
Goodwill	72	9
Purchase consideration transferred	236	22
Purchase consideration consist of		
Consideration paid in cash	148	19
Issuance of shares	65	-
Issuance of warranties	7	-
Closing adjustments settled in 2019	9	3
Contingent consideration	7	-
Total consideration	236	22
Net cash outflow on transaction		
Consideration paid in cash	167	22
Less cash and cash equivalents acquired	-	(3)
Net cash flow from the transaction	167	19

Goodwill initially recognized in the transaction was assessed to reflect the organization and workforce in place, combined with the strategic position and future growth potential. The goodwill was impaired in third quarter 2019, see note 15.

Acquisition related costs (included in the Selling, general and administrative expenses) amounts to USD 4.0 million.

In the consolidated financial statements of Magseis for the full financial year of 2018, the revenues from Magseis Fairfield LLC and WGP Group constitute USD 3.4 million, and the net loss constitutes USD 2,1 million. The pro-forma consolidated financial statements of Magseis including the pro-forma Magseis Fairfield LLC and WGP Group financial statements, for the full year 2018, as if the acquisition had taken place as of 1 January 2018, show total revenues of USD 326.1 million and net loss of USD 11.0 million.

3.3 Group structure

The following subsidiaries are included in the consolidated financial statements:

Company	Country of incorporation	Main operations
Magseis Operations AS	Norway	Geophysical services
Magseis FF AS	Norway	Holding company
Magseis Malaysia Sdn. Bhd.	Malaysia	Geophysical services
Magseis Technology AB	Sweden	Product development
Magseis Singapore Pte. Ltd	Singapore	Crewing company
Magseis Brazil Ltda.	Brazil	Geophysical services
Magseis USA LLC	USA	Dormant
Magseis FF LLC	USA	Geophysical services
Magseis Fairfield Industries International Ltd	UK	Holding company
WGP Group Ltd	UK	Geophysical services
WGP FFN Professional Services Ltd	BVI	Crewing company

The company holds 100 percent of all shares and all voting rights for its subsidiaries.

4. Share information

	Number of shares	Share capital USD '000	Share premium USD '000
At 1 January 2018	60 892 391	438	141 486
1 February 2018: Privat placement at NOK 18.00 per share	6 089 239	40	14 229
Transaction costs	-	-	(1 351)
21 February 2018: Private placement at NOK 18.00 per share	10 577 428	68	24 244
Transaction costs	-	-	(101)
17 and 19 December 2018: Private placement at NOK 18.00 per share	107 423 304	621	209 790
Transaction costs	-	-	(6 146)
31 December 2018	184 982 362	1 167	382 151
14 January 2019: Repair offering at NOK 16.95 per share	2 019	-	4
Transaction costs	-	-	(1)
14 April 2019: Share issuance - employee incentive	186 211	1	
Transaction costs	-	-	(6)
31 December 2019	185 170 592	1 167	382 148

Share capital

The nominal value of the shares is NOK 0.05. The share capital is fully paid. Magseis Fairfield ASA has one class of shares, ordinary shares, with equal rights for all shares. The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at general meetings.

Share based payments reserve

Share-based payments represent cost charged to income statement over the vesting period based on the fair value measured at grant date for equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

The 20 largest shareholders as at 31 December 2019 are as follows:

	Number of shares	Ownership interest
Fairfield MS LLC	33 500 000	18.90 %
Morgan Stanley & Co. LLC	17 053 228	9.21 %
U.S. Bank National Association	6 631 815	3.58 %
ANFAR INVEST AS	6 196 856	3.35 %
AS CLIPPER	6 196 521	3.35 %
WESTCON GROUP AS	5 661 436	3.06 %
KAS Bank N.V.	5 000 000	2.70 %
VERDIPAPIRFONDET KLP AKSJENORGE	4 857 948	2.62 %
STRAWBERRY CAPITAL AS	4 796 417	2.59 %
GEO INNOVA AS	4 638 382	2.50 %
SEI INSTITUTIONAL INTERNATIONAL	3 951 782	2.13 %
Merrill Lynch Prof. Clearing Corp.	3 900 000	2.11 %
REDBACK AS	3 578 289	1.93 %
KOMMUNAL LANDSPENSJONSKASSE	3 411 771	1.84 %
VERDIPAPIRFONDET NORDEA NORGE VERD	3 197 733	1.73 %
JPMorgan Chase Bank	3 058 667	1.65 %
REGENTS OF THE UNIVERSITY OF MICHI	2 669 079	1.44 %
VERDIPAPIRFONDET NORDEA KAPITAL	2 472 872	1.34 %
VERDIPAPIRFONDET PARETO INVESTMENT	2 340 000	1.26 %
BARRUS CAPITAL AS	2 292 351	1.24 %
Total largest shareholders	125 405 147	68.53 %
Other shareholders	59 765 445	31.47 %
Total outstanding shareholders	185 170 592	100.00 %

5. Segment information

The Group's CEO (Chief Executive Officer) is the chief operating decision maker at Magseis Fairfield, and the whole Group is managed as one segment.

Financial information prepared for internal reporting purposes are based on the same accounting principles as described in this annual report. The information disclosed in the statement of profit or loss and the statement of financial position is basically the same as the information used by the CEO to assess performance and allocate resources.

A significant portion of the Group's revenue is generated from customer contracts with a limited number of key clients, where the top three customers generated revenue of USD 112 million, USD 98.5 million, USD 55.4 million respectively for the full financial year 2019.

See note 6 Revenue from customer contracts for the allocation of revenue to the geographical locations.

6. Revenue from customer contracts

Revenue from contracts with customers

Revenue from contracts with customers arise primarily from the delivery of exclusive seismic services, granting of licenses to the Groups' Multiclient survey data library, marine geophysical services and sales of nodes and other equipment.

Revenue is recognized at the amount that the Group expects to be entitled to and expects to collect under the customer contracts. If a customer contract consists of multiple performance obligations, the consideration is allocated among the performance obligations based on their estimated relative fair values. Amounts received from customers in advance of the Group satisfying its performance obligations are recognized as a contract liability. In the rare event the Group has satisfied a performance obligation and is otherwise entitled to compensation under the contract but there is a significant uncertainty as to ultimately collecting the compensation, revenue recognition is deferred until such uncertainty no longer exists. When the Group has satisfied its performance obligations and has a right to the agreed consideration, revenue is recognized.

The principles applied for each of the main types of contracts with customers are described in more detail below.

Proprietary acquisition projects/Reservoir monitoring/Source

The Group performs ocean bottom seismic services in accordance with customer specifications, and where the customer retain ownership to the seismic data gathered. These contracts are considered to contain one single performance obligation, and the performance obligation is satisfied over time since the Group performs the service at the customer specification, the resultant seismic data is retained by the customer and the Group has no alternative right to otherwise utilize or benefit from the data.

The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is normally due based on the contractually agreed payment plan when legal title to the seismic data has been transferred. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds 12 months. The transaction price is therefore not adjusted for the effects of a significant financing component. The project is measured based on the physical progression, and revenue is recognized based on the ratio of the project's progress to date (percentage of completion), provided that the performance obligation is satisfied. Revenue recognition can be based on various parameters, such as length of cable deployed, number of shots, square kilometres of acquired data or time progressed.

Multi-client surveys

The multi-client library consists of seismic data surveys which are licensed to customers on a non-exclusive basis. Revenues generated from multi-client surveys falls into two categories:

Pre-commitment arrangements – Comprise of contracts where the Group obtains pre-funding from customers before a seismic project is started, or during the project period. These pre-commitments cover specific areas or license blocks. In return for the commitment, the customer obtains early access to the data, favourable pricing compared to late sales and a degree of influence over the project scope. 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.

Late sales – Comprise of contracts where the Group grants a license entitling non-exclusive access to utilize a defined portion of the multi-client data library in exchange for a fixed payment. Revenue is recognized at the point in time when the customer has been granted access to the data.

For multi-client library 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 share of the investment in the multi-client library, its share of revenues from the sale of the multi-client survey, related amortization, and expenses. When a partner holds the right to market and sell the project and invoices and collects from the customer, Magseis Fairfield recognizes its share of related accounts receivables. No such arrangements were in place in 2019, but Magseis Fairfield has entered into an agreement with an established multi-client company to participate in a multi-client project, which is expected to commence late in the first quarter of 2020.

Revenue from sale of nodes

The Group provides the sale of nodes to external customers, where each sale is defined as a customer contract. The sales contracts normally include one performance obligation which is satisfied upon the delivery of an agreed number of nodes in accordance with the agreed specifications. Revenue is recognized at the point in time when the control of the goods is transferred to the customer, which occurs when the products have been shipped to a contractual agreed location, and the risks of obsolescence and loss have been transferred to the customer. The revenue is measured at the transaction price as agreed under the contract.

Other services revenue

Customer contracts for other marine geophysical services are similar in nature and terms to the proprietary contract sales. Revenue is recognized over time as the Group satisfies the performance obligation and is entitled to the compensation under the contract. Lease income is recognized on a straight-line basis over the lease period.

Significant judgements and critical estimates

The deliveries in the customer contracts are reviewed to identify distinct performance obligations, and this assessment may involve significant judgement. For most of the identified performance obligations for Proprietary acquisition projects, control has been assessed to be transferred to the customer over time as the performance obligation is satisfied. Revenue is recognized over time using either a cost-based progress method, or revenue is recognized as physical progress of the project represents the transfer of seismic data to the customer. These methods are assessed to best reflect the pattern of transfer of control of goods and services to the customer.

Disaggregation of revenue

In accordance with IFRS 15 management analyse the revenue contracts with customers and disaggregates the revenue into the following product categories, which depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors:

- Proprietary acquisition projects
- Multi-client surveys
- Revenue from sale of nodes
- Other service revenues

Revenue from customers is disaggregated in the table below by geographical location, by type of product, and by the timing of the revenue. For proprietary acquisition projects and Reservoir Monitoring/Source Acquisition the geographical specification is based upon location of performance. For sale and repair of nodes the geographical specification is based upon the location of the customer.

Disaggregation of revenue from contracts with customers:

USD thousand	Proprietary acquisition	Multi-client surveys	Revenue from sale of nodes	Reservoir monitoring/Source acquisition	2019
Middle East	109 014	-	-	-	109 014
North Americas	132 836	-	5 534	-	138 370
Europe	26 779	2 175	-	30 477	59 431
Asia	16 174	-	125 733	-	141 907
Africa	4 704	-	-	-	4 704
Other	-	-	410	-	410
Revenue from contracts with customers	289 507	2 175	131 677	30 477	453 836
Point in time revenue recognition					
Multi-client surveys	-	2 175	-	-	2 175
Revenue from sale of nodes	-	-	131 677	-	131 677
Total at a point in time revenue recognition	-	2 175	131 677	-	133 852
Over time revenue recognition					
Proprietary acquisition projects	289 507	-	-	-	289 507
Reservoir monitoring/Source acquisition	-	-	-	30 477	30 477
Total over time revenue recognition	289 507	-	-	30 477	319 984
Total revenue from contracts with customers	289 507	2 175	131 677	30 477	453 836
Lease income	-	-	-	-	5 789
Total revenue and other income	289 507	2 175	131 677	30 477	459 625

USD thousand	Proprietary acquisition	Multi-client surveys	Revenue from sale of nodes	Other revenue*	2018
North Sea	1 739	-	-	-	1 739
Asia	-	-	40 849	-	40 849
Malaysia	15 737	-	-	-	15 737
Red Sea	62 294	-	-	-	62 294
Russia	12 257	-	-	-	12 257
Other	2 514	-	-	1 087	3 601
Revenue from contracts with customers	94 541	-	40 849	1 087	136 477
Point in time revenue recognition					
Multi-client surveys	-	-	-	-	-
Revenue from sale of nodes	-	-	40 849	-	40 849
Total at a point in time revenue recognition	-	-	40 849	-	40 849
Over time revenue recognition					
Proprietary acquisition projects	94 541	-	-	-	94 541
Other services revenues	-	-	-	1 087	1 087
Total over time revenue recognition	94 541	-	-	-	95 628
Total revenue and income	94 541	-	40 849	1 087	136 477

*Other revenue includes revenue from seismic support services.

Assets and liabilities related to contracts with customers

Contract assets and contract liabilities from customers were USD 15.1 million (USD 16.2 million) and nil (USD 15.6 million) respectively. Contract liabilities as per year-end 2018 were recognised as revenue in 2019. There are no contract liabilities as of 31 December 2019.

Contract assets

Contract assets are recognized whenever a performance obligation is satisfied before the point in time where we have right of invoicing. This relates mainly to proprietary acquisition projects arrangements where the timing of invoicing is decided by the customer contract. Contract assets are assessed for impairment in accordance with IFRS 9. As of 31 December 2019, contract assets have been reviewed for impairment, with no material impairment charges recognized.

Contract liabilities (Advance payments from customers)

Advance payments from customers is recognized if the Group receives consideration or if it has the unconditional right to receive consideration in advance of performance. A portion of the Group's customers pay fees in advance, and these prepayments are recognized as non-financial debt and will be settled in the Group's services.

Assets recognized from cost to fulfil a contract

In addition to the contract balances discussed above, the Group has also recognized an asset in relation to costs to fulfil some of the Group's long-term contracts for proprietary acquisition projects. These costs relate primarily to mobilization and relocation of vessels and is presented within other assets in the balance sheet. There were no such costs to fulfil a contract at year-end 2019 (USD 18.9 million).

7. Cost of sales

Specification of cost of sales:

USD thousand	2019	2018
Charter hire and running expenses	101 071	23 625
Crew cost and operational expenses	50 370	18 252
Other operating expense	38 828	2 142
Cost of sales of finished goods	80 004	21 841
Fuel costs	17 559	2 947
Batteries and other instruments	37 875	7 260
Other cost of sales	42 317	10 697
Inventory write-down	6 284	-
Total cost of sales	374 308	86 764

Specification of crew costs:

USD thousand	2019	2018
Salary and social expenses	40 801	15 173
Social security tax	4 451	718
Pensions	874	402
Other payments	4 243	1 958
Total crew cost	50 370	18 252

8. Other operating expenses

Financial Reporting Principles

Other operating expenses are recognized in the period in which the associated goods and services are delivered to the Group. Personnel expenses include wages, salaries, social security contributions, sick leave, parental leave and other employee benefits. The benefits are recognized in the year in which the associated services are rendered by the employees.

Specification of other operating expenses:

USD thousand	2019	2018
Research and development expenses		
Salary and social expenses	4 729	2 011
Consultant costs	1 850	1 984
Total research and development expenses	6 579	3 995
Selling, general and administrative expenses		
Salary and social expenses	38 672	14 036
Administrative expenses	7 753	3 760
Other expenses	10 808	4 909
Total selling, general and administrative expenses	57 233	22 705
Salary and social expenses		
Salary	26 600	11 668
Social security tax	2 796	1 351
Pension costs	981	515
Share-based payments	2 540	38
Other personnel cost	5 755	464
Total salary and social expenses	38 672	14 036

The audit fee to Deloitte are specified in the table below:

USD thousand	2019	2018
Audit services		
Audit of annual financial statements	299	112
Other services		
Other assurance services	71	211
Total audit remuneration	370	323

Other assurance services in 2018 relates to attestation services in connection with business acquisitions.

9. Financial income and expense

Interest income include effects from using the effective interest rate method where fees, interest paid, transaction costs and other premiums are deferred and amortized over the life of the instrument. Net effects from fair value gains or losses on financial assets at fair value through profit or loss, and adjustments to the carrying amount of financial liabilities at amortized cost are recognized in other financial items.

Foreign exchange gains and losses arise upon settlement of monetary assets and liabilities that are not hedged. Foreign exchange gains and losses also include the effects from translating monetary assets and liabilities denominated in foreign currencies at the balance sheet date.

Financial income includes interest income from financial assets held for cash management purposes, and financial costs includes borrowing costs, interest expenses in respect of lease liabilities and exchange differences arising from foreign currency borrowings.

USD thousand	2019	2018
Revaluation of warrants	6 482	-
Interest income	728	492
Foreign exchange gains	1 160	2 136
Other financial items	6 024	-
Total financial income	14 394	2 628
Interest expense	(2 177)	(1 472)
Interest expense on financial leases	(2 381)	(51)
Bank guarantees and other bank charges	(1 558)	-
Foreign exchange losses	(1 257)	(3 535)
Total financial cost	(7 373)	(5 058)
Net financial income/(expenses)	7 021	(2 430)

Other financial items relate to reversal of previous recognised contingent liability of USD 6 million. In addition, USD 2 million in previously accrued interest expenses on the contingent liability has been reversed, reflected in reduced interest expense in the table above.

10. Income tax

Financial Reporting Principles

Income tax consists of current tax, effect of change in deferred tax positions and withholding tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date that will be paid during the next 12 months. Current tax also includes any adjustment of taxes from previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognized for goodwill identified in business combinations. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences. The deferred tax asset is only recognized to the extent it is considered probable that future taxable profits will be available to utilize the credits.

Withholding tax

Withholding tax and any related tax credits are generally recognized in the period they are incurred.

Significant judgements and critical estimates

The Group is operating in different parts of the world and is thus subject to income taxes in numerous jurisdictions with increasingly complex tax laws. Judgement may be involved when determining whether the Groups' 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 material amounts of income tax relating to prior reporting periods. Management judgment is required when assessing valuation of unused losses, tax credits and other deferred tax assets. The recoverability is assessed by estimating taxable profits in future years taking into consideration also expected changes in temporary differences.

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 is recognised in fourth quarter, reflecting management's best judgement and estimates. However, the outcome of such proceedings will always be subject to uncertainties until a final tax statement have been issued by the local tax authorities.

The Group has incurred several years of consecutive tax losses in the Norwegian tax jurisdiction, including for 2019 and the outlook for 2020 remains uncertain. Although management believes it will eventually attain a satisfactory level of profitability, sufficient and convincing evidence of such as required by International Accounting Standard 12 is not present per the reporting date.

Income tax expense specification:

USD thousand	2019	2018
Current tax		
Tax payable	4 488	3 468
Withholding and Permanent Establishment (PE) taxes	3 688	
Deferred tax		
Changes in deferred tax	-	-
Tax expense	8 176	3 468

A reconciliation of the effective rate of tax and the tax rate in parent's country of registration:

USD thousand	2019	2018
Net profit/(loss) before tax	(151 141)	647
Income taxes calculated at 22%/23%	(33 251)	149
Adjustment for previous year's tax provisions	(522)	-
Changes in temporary differences	25 502	-
Changes in unrecognized deferred tax asset	5 033	641
Non-deductible expenses	3 958	(29)
Paid withholding and PE taxes	6 528	2 705
Effect of different tax rates	1 130	4
Other	(202)	-
Tax expense	(8 176)	3 468

The Group have unutilized tax losses of USD 45.6 million in 2019 available to be offset against future taxable income. The deductible temporary difference and tax losses do not expire under current tax legislation. The net deferred tax asset for the Group has not been recognized on the basis that it does not meet the criteria for asset recognition as the Group currently cannot document that the future taxable income can be utilized against available tax losses. The Norwegian tax rate (attributable to the Parent) is 22 percent (23 percent in 2018).

Deferred tax assets and liabilities, of which none were recognized:

USD thousand	2019	2018
Non-current assets	18 949	12 472
Current assets	(2 941)	-
Non-current liability	-	(1 861)
Current liabilities	(4 369)	(1 726)
Tax- losses carried forward	(9 921)	(15 877)
Tax credits carried forward	(1 156)	-
Total (assets)/liabilities	561	(6 992)
Not recognized deferred tax assets	(561)	6 992
Net recognized deferred (assets)/liabilities	-	-

11. Related party transactions

Financial Reporting Principles

Related parties' relationships are defined to be entities outside the Group that are under control (either directly or indirectly), joint control or significant influence by the owners, Board of Directors or Management of Magseis Fairfield ASA. Related parties are in a position to enter into transactions with the company that would potentially not be undertaken between unrelated parties. The terms and conditions of the transactions with related parties are considered to be on an arm's length basis.

The aggregate value of transactions and outstanding trade payables with related parties were as follows:

			Transaction value		Trade payables	
USD thousand			2019	2018	2019	2018
Westcon Group	Leases	(I)	34 095	20 235	3 547	3 050
Fairfield Geotechnologies LLC	Other services	(II)	4 254	-	104	-
J B Gateman	Consultant costs	(III)	270	177	59	60
Total			38 619	20 502	3 710	3 110

(I) Relates to time charters (TC) for the three vessels Artemis Athene, Artemis Angler and Artemis Artic. Westcon Group also delivers Marine Management services.

(II) Relates to sublease, consultancy and other operating services. The lease agreement ends in October 2030 and the total lease liability is USD 3.7m as of 31 December 2019.

(III) Jan Gateman is engaged as an independent consultant as Senior Vice President.

12. Earnings per share

Financial Reporting Principles

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share include the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Options granted to management under the employee share purchase program and warrants issued are potential ordinary shares. They have been included in the determination of diluted earnings per share to the extent that they are dilutive. The options have not been included in the determination of basic earnings per share as the strike price for the options have been less than the average market price of ordinary shares during the reporting period.

Earnings per share:

USD cents	2019	2018
Basic earnings/(loss) per share on ordinary shares	(0.82)	(0.02)
Basic earnings/(loss) per share on weighted average number of shares	(0.82)	(0.04)
Diluted earnings/(loss) per share	(0.82)	(0.04)

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

USD thousands except for the shares outstanding	2019	2018
Basic earnings/(loss) per share		
Profit/(loss) for the year	(151 540)	(2 821)
Number of ordinary shares outstanding	185 171	184 982
Profit/(loss) for the year	(151 540)	(2 821)
Weighted average number of ordinary shares outstanding	185 124	79 318
Diluted earnings/(loss) per share		
Profit/(loss) for the year	(151 540)	(2 821)
Weighted average number of ordinary shares outstanding used as the denominator in calculating basic earnings per share	185 124	79 318
Adjustments for calculation of diluted earnings per share:		
Employee stock options	350	59
Warrants outstanding (18 250 000 warrants not included as out of the money)	18 250	18 250
Weighted average number of ordinary shares and potential ordinary shares that would have been used as the denominator in calculating diluted earnings per share if the warrants and options were in the money.	203 724	79 377

13. Property, plant and equipment

Financial Reporting Principles

Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses. Components of property, plant and equipment with different useful lives are accounted for separately. Assets are normally depreciated on a straight-line basis over their expected economic lives as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Equipment under construction is classified as non-current assets and recognized at cost and it is not depreciated until the asset is ready for use.

Borrowing costs are capitalized as part of the cost of the asset when significant. The cost of self-constructed assets includes the cost of materials, direct labour, production overheads and borrowing cost.

Impairment triggers are assessed quarterly, and impairment testing is performed when triggers have been identified.

Significant judgements and critical estimates

Judgement is involved when determining the depreciation period and when assessing impairment or reversal of impairment. Impairment is assessed on an individual asset basis and for cash generating units. The impairment testing involves judgmental assumptions about future market development, cashflows, determination of weighted average cost of capital (WACC), growth rate and other assumptions that may change over time.

USD thousand	Seismic equipment	Asset under construction	Machines, Fixtures etc.	Right-of-use assets	Total
Accumulated cost					
Balance at 1 January 2018	76 047	32 101	722	-	99 420
Acquisition of new business	49 334	13 683	734	-	63 751
Reclassification asset under construction	48 364	(48 573)	209	-	-
Additions	1 728	51 219	233	-	53 180
Disposal	(22 714)	-	-	-	(22 714)
Balance at 31 December 2018	153 647	38 092	1 898	-	193 637
PPA adjustment	7 400	5 291	-	-	12 691
Restated balance at 31 December 2018	161 047	43 383	1 898		206 328
Implementation of IFRS 16 1 January	-	-	-	19 937	19 937
Reclassification asset under construction	23 980	(28 804)	4 824	-	-
Additions	33 309	57 390	407	23 455	114 562
Adjustments and reclassifications	(99)	3 610	(1 389)	97	2 219
Disposals	(42 243)	(19 135)	(68)	-	(61 446)
Balance at 31 December 2019	176 093	56 443	5 672	43 392	281 600
Accumulated Depreciation and Impairment					
Balance at 1 January 2018	29 842	-	496	-	30 338
Depreciation for the year	17 113	-	205	-	17 318
Disposals	(2 617)	-	-	-	-2 617
Balance at 31 December 2018	44 338	-	701	-	45 039
Depreciation for the year	48 791	-	669	17 225	66 685
Acc. depreciation sold/scrapped assets	(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					
Restated at 31 December 2018	116 709	43 383	1 197	-	161 289
Balance at 31 December 2019	90 887	54 637	1 113	25 453	172 091

Commitments

The Group has entered into contractual commitments for the acquisition of seismic equipment in 2020 amounting to USD 19.8 million as of 31 December 2019. Contractual commitments were USD 41 million per 31 December 2018.

14. Other intangible assets

Financial Reporting Principles

Research and development costs are expensed as incurred until a program has completed the concept phase.

Development activities involve a plan or design to produce new or substantially improved products and processes. Development cost is only capitalized if the product or process is technically and commercially feasible and the business case shows a positive net present value. Capitalized development costs mainly include internal labour costs in addition to materials for the development program. Any third-party funding is presented as a reduction of the capitalized amount.

Other intangible assets also include customer relations, IT systems and technology development acquired through business combinations. The useful life of the acquired technology is 10 years, see also note 3 business combinations.

Capitalized development costs are normally amortized over three to six years on a straight-line basis.

USD thousand	Goodwill	Other intangibles
Accumulated investments		
Balance at 1 January 2018	-	7 373
Acquisition of new business	93 731	75 723
Balance at 31 December 2019	93 731	83 096
PPA adjustments	(12 600)	(1 800)
Revised balance at 1 January 2019	81 131	81 296
Balance at 31 December 2019	81 131	81 296
Accumulated amortization and impairment		
Balance at 1 January 2018	-	2 040
Amortization for the year	-	776
Balance at 31 December 2018	-	2 816
Amortization for the period	-	8 961
Impairment for the period	81 131	4 113
Balance at 31 December 2019	(81 131)	(15 890)
Carrying amounts		
Balance at 1 January 2019	81 131	78 480
Balance at 31 December 2019	-	65 406

15. 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 purposes 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.

Significant judgements and critical estimates

Management identified several impairment indicators as the financial guidance on EBITDA for 2019 was reduced from USD 100m to USD 45-55m and the share price fell from NOK 10 per share to NOK 5 per share. Further, synergies from the recent acquisition of Fairfield and WGP had not materialized as expected. It was clear that the project margins had not developed as expected and the backlog had been reduced throughout the year. Consequently, management revised the Group's prognoses and long-term market outlook. As a result of these impairment indicators, management made an impairment test. This test indicated that the recoverable amount tested was lower than the carrying amount, resulting in a significant impairment charge recognized.

Asset type	2019	2018
Goodwill	81 131	-
Other Intangible assets	4 100	-
Property, plant and equipment	21 014	-
Total impairment of non-current assets	106 245	-

Impairment of Goodwill

Impairment of goodwill relates in its entirety to assets arising from Magseis ASA acquiring of Fairfields' seismic technologies businesses in December 2018. The acquisition of Fairfield's seismic technology business and WGP was motivated by complimenting technology, common market presence and synergies across legal entities. However, synergies from the acquisition has not materialized as expected, and revenue and cash flow prognoses have thus been updated.

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 amount of goodwill was:

- Cash flow projections based on updated budgets and forecasts for the period including 2023, with an estimation of terminal value in subsequent periods. These projections include both awarded projects and assumed project wins bases on long term market outlook.
- Terminal value reflect long term steady state revenue and margin levels based on a combination of historic levels and judgements applied.
- Annual growth rate of two percent is used in calculating the terminal value.
- The post-tax discount rate applied in the testing is 8.8 percent.

- The Group is treated as one CGU for impairment purposes, as both the management operating model and segment reporting are prepared on Group level.

Impairment of PPE and other intangible asses

The impairment of property, plant and equipment and other intangible assets relates primarily to node development projects and obsolete seismic equipment where little or no future revenue is expected to be generated, thus indicating that the recoverable amount of these assets is close to nil.

16. Leases

Financial Reporting Principles

The Group has adopted the new accounting standard IFRS 16 Leases which replaces IAS 17 Leases and related interpretations. IFRS 16 Leases has from a lessee viewpoint eliminated the classification of leases as either operating leases or finance leases. Instead, all leases are treated in a similar way to finance leases under IAS 17.

The standard was effective for accounting periods beginning on or after 1 January 2019 and was adopted by the Group from the same date.

IFRS 16 allows various adoption approaches, where the Group has applied the modified retrospective approach where all right-of-use assets (ROU assets) are measured at an amount equal to the lease liability as at 1 January 2019. The lease liability in turn is calculated as the present value of remaining lease payments under the leases discounted by incremental borrowing rates as per time of transition. No implementation effects related to the IFRS 16 Leases implementation have affected the 1 January 2019 opening equity balance.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.9 percent.

Under the simplified transition approach, no comparatives for 2018 have been restated.

Reconciliation of lease liabilities as at 1 January 2019:

USD thousands	
Reconciliation of lease liabilities as at 1 January 2019	
Operating lease commitments as at 31 December 2018	102 176
Discounting effect using the lessee's incremental borrowing rate of at the date of initial application	(16 048)
Short-term leases recognized on a straight-line basis as expense	(66 185)
Lease liability recognized as at 1 January 2019	19 943
Of which are:	
Current lease liabilities	10 850
Non-current lease liabilities	9 093

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics,

- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 was defined as short-term leases,
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application.

The Group's leasing activities and how these are accounted for

The Group leases various office buildings, a manufacturing site, warehouses, vessels and other equipment. Rental contracts are typically made for fixed periods of 6 months to 5 years but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. Finance leases that gave the Group substantially all the risks and benefits of the leased item was recognized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. For the purpose of calculating the present value, the interest rate implicit in the lease was used as the discount factor. Lease payments made under finance leases was apportioned between finance costs and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Leased assets were depreciated over the shorter of the lease term and their useful life.

Other lease contracts were classified as operating leases and were not recognized in the Group's statement of financial position. Lease payments was recognized as operating expense in the income statement on a straight-line basis over the lease term. Lease incentives received was recognized as an integral part of the total lease expense over the term of the lease.

From 1 January 2019, all leases are recognized as property, plant and equipment with a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in lease payments based on an index or rate, which are not included in the lease liability until they take effect. These increases are primary due to annual CPI-adjustments of the contractual lease payments. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are measured at cost comprising the initial measurement of lease liability, adjusted for lease payments made at or before the commencement date, lease incentives received and any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases (less than 12 months) and leases of low-value assets are recognized on a straight-line basis as an operating expense in profit or loss.

Significant judgements and critical estimates

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.

Right-of-use-assets:

USD Thousand	Vessels	Offices	Other	Total
Carrying value				
Balance at 1 January 2019	-	-	-	-
Leases capitalized due to implementation of IFRS 16	11 870	8 067	-	19 943
Balance right-of-use assets 1 January 2019	11 870	8 067	-	19 943
Additions	18 636	3 532	1 190	23 358
Depreciation	(15 806)	(1 281)	(138)	(17 225)
Impairment	-	(714)	-	(714)
Other adjustments	97	-	-	97
Balance at 31 December 2019	14 797	9 604	1 052	25 453

Lease liabilities:

USD Thousand	Non-current	Current	Total
Carrying value			
Leases capitalized due to implementation of IFRS 16	10 731	9 212	19 943
Balance right-of-use assets 1 January 2019	10 731	9 212	19 943
Additions	16 526	6 832	23 358
Reclassification to current	(19 085)	19 085	-
Lease payments	-	(18 775)	(18 775)
Other adjustments	2 535	(159)	2 376
Balance at 31 December 2019	10 707	16 195	26 902

17. Cash and cash equivalents

Financial Reporting Principles

Cash and cash equivalents include cash on hand, demand deposits in banks and other short-term highly liquid deposits with original maturity of three months or less.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

While cash and cash equivalents are subject to the impairment requirements of IFRS 9, the expected credit losses are immaterial.

USD thousand	2019	2018
Unrestricted cash balances	52 615	59 923
Restricted cash balances		
Advance payment (deposit) from customer	-	7 726
Employee tax withholding accounts	817	461
Total cash and cash equivalents	53 432	68 110

18. Inventories

Financial Reporting Principles

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses and the estimated cost to complete the inventory. The cost of inventories is based on the weighted average cost.

Significant judgements and critical estimates

The assessment of obsolete and slow-moving inventory in order to determine inventory write-downs is subject to management judgment. The selling price in the market must be estimated, and there is a risk that the actual selling price may turn out to be different than the amount estimated by management.

Inventories:

USD thousand	2019	2018
Raw materials equipment for sale	6 542	7 949
Equipment work in progress	913	3 051
Stock finished equipment for sale	9 336	19 492
Fuel stock	1 621	2 485
Battery stock	516	1 270
Total inventories	18 928	34 247

A reclassification from inventory to PPE for assets under construction of USD 5.2 million has been adjusted in 2018 balance sheet. This relates to changes in the final Purchase Price Allocation.

19. Trade receivables and contract assets

Financial Reporting Principles

Trade and other receivables are recognized at the initial invoiced amount, less any impairment losses. The invoiced amount is approximately equal to the value derived if the amortized cost method would have been used.

Impairment of accounts receivable and contract assets (financial asset at amortized cost)

Impairment losses are measured at lifetime expected credit losses in accordance with IFRS 9.

The Group's impairment model for accounts receivable, contract assets and other current assets is a simplified approach based on lifetime expected credit losses (ECL). Impairment is based on an estimate of the probability of default for the financial assets reflecting an unbiased amount determined by evaluating a range of possible outcomes; the time value of money and reasonable available information related to past events, current conditions and forecasts of future economic conditions.

The Group uses an impairment model with the following characteristics: The receivables are organized in portfolios based on the credit risk of the customers. The primary portfolio is the receivables where invoicing is done to customers with a high credit rating, typical large listed or state-owned oil companies. This portfolio has a low risk of default and therefore no impairment loss is initially recognized based on the expectation of all of the accounts being paid, Further, an individual assessment is performed on specific customer receivables, typically if a customer is in known financial distress or has declared bankruptcy.

USD thousand	2019	2018
Trade receivables	24 353	59 128
Contract assets	15 074	16 207
Trade receivables and contract assets	39 427	75 335
Costs to fulfil a contract (mobilization costs) *	-	18 854
Contract liabilities (prepaid revenue) **	-	15 578

*Refer to note 20 Prepaid expenses and other current assets. Contract assets of USD 16 207 thousand were included in the line item Trade receivables in the 2018 Statement of financial position and are included in the line item Other current assets in the 2019 statement of financial position.

**Refer to note 23 Other current liabilities

USD thousand	31 Dec 2019 Carrying amount	31 Dec. 2019 Loss allowance*	31 Dec. 2018 Carrying amount	31 Dec. 2018 Loss allowance
Not overdue as of 31.12	15 251	-	-	-
Past due 0-30 days	2 412	-	67 628	-
Past due 31-120 days	493	-	775	-
Past due more than 120 days**	6 486	-	6 932	-
Total	24 642	-	75 335	-

*Credit risk on the trade receivables are evaluated as very low. At year-end 31 December 2019 a loss allowance of USD 124 thousand has been recognized. The 1 January 2019 loss allowance had a zero balance, and during 2019 USD 1.6 million was impaired related to a customer receivable.

** For one of the customers, representing the most significant share of overdue amount, the final payment is pending on the customer's final tax certificate.

20. Prepaid expenses and other current assets

USD thousand	2019	2018
Prepayments	5 269	5 290
Other receivables	1 431	3 358
Contract assets*	15 074	16 207
Costs to fulfil - mobilization costs	-	18 854
Deposits	535	1 215
Total other current assets	22 310	44 925

*Refer to note 19 Trade receivables and contract assets

21. Borrowings

Financial Reporting Principles

Interest-bearing debt is recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing debt is stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

USD thousand	2019	2018
Borrowings, long-term (Secured loan facility – DnB)	15 824	32 137
Non-current finance arrangement	4 263	18 709
Leases liabilities	10 707	-
Total borrowings, long-term	30 794	50 846
Related financial liabilities classified as current portion of borrowings		
Borrowings, short-term	16 667	27 301
Current portion lease liability	16 195	-
Total borrowings, short-term	32 862	27 301
Total borrowings	63 656	78 147

The secured loan facility with DNB has a 3-year term payable in 6 instalments of USD 8.3 million. The interest terms are LIBOR + margin of 4.5 percent calculated every quarter. The costs of establishing the DNB loan facility amount to USD 1.2 million. This arrangement cost reduces the loan amount at origination and is amortized over the 3- year term of the loan facility.

As of 31 December 2018, the Company also had a loan to GIEK and Innovation Norway (reflected in non-current and current portion above) that was fully repaid in January 2019.

The covenant requirements as of 31 December 2019 for the secured loan facility:

- Leverage: Net Interest-Bearing Debt/Annual EBITDA - below 1
- Minimum liquidity: Cash and Cash Equivalents - above 15 million USD
- Minimum equity ratio: Total Equity/Total Assets - above 50 percent

Total Debt is defined as interest bearing liabilities excluding third party non-conditional debt. Net Interest-Bearing Debt is defined as Total Debt less Cash and Cash Equivalents.

Annual EBITDA is defined in the loan agreement as 12 months-rolling EBITDA less exceptional cost items as defined per loan agreement.

Magseis Fairfield is in compliance with all loan covenants as of 31 December 2019.

The required equity ratio for the loan facility was in May 2019 reduced to 50 percent for all quarters in 2019, from an original covenant requirement of 60 percent. The 50 percent equity ratio covenant has now been extended through 2020.

Conditional upon successful completion of private placement of more than USD 20 million, the current term loan will be refinanced and converted to a Revolving Credit Facility (RCF) of USD 30 million with new covenants.

New covenants under the RCF:

- Leverage: Net interest-bearing debt/Annual EBITDA < 1.25x. EBITDA calculation to be based on 2018 accounting principles (pre IFRS 16)
- Equity Ratio > 50 percent
- Minimum Liquidity to be replaced with Clean Down mechanism

Interest terms are LIBOR + margin of 4.25 percent p.a. Maturity 15 December 2022.

Security and guarantees

The following security has been provided to DNB Bank ASA, which secures both the loan agreement and any guarantee facility provided by DNB Bank ASA:

Magseis Fairfield ASA:

- Guarantee of USD 90 million plus interest and expenses
- Pledge over the shares in Fairfield Industries International Limited
- Pledge over the shares in Magseis FF AS
- Pledge over the shares in Magseis Operations AS
- Assignment over any monetary claims under the Fairfield share purchase agreement.
- Floating charges over operating assets, inventory and trade receivables
- Pledge over Norwegian bank accounts

Magseis Operations AS:

- Guarantee of USD 90 million plus interest and expenses
- Floating charges over operating assets, inventory and trade receivables
- Pledge over Norwegian bank accounts

Magseis FF AS:

- Guarantee of USD 90 million plus interest and expenses
- Pledge over the shares in Magseis FF LLC
- Floating charges over operating assets, inventory and trade receivables
- Pledge over Norwegian bank accounts

Fairfield Industries International Limited:

- Guarantee of USD 90 million plus interest and expenses
- Security over all assets (general debenture)

Magseis FF LLC:

- Guarantee of USD 90 million plus interest and expenses
- Security over all or substantially all assets, including patents/IP and bank accounts

22. Cash flow information

Financial Reporting Principles

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows relating to leases are presented as follows:

(a) cash payments for the principal portion of the lease liabilities as cash flows from financing activities

(b) cash payments for the interest portion consistent with presentation of interest payments chosen by the Group, and

(c) short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

Non-cash transactions from financing activities are illustrated in the reconciliation of liabilities from financing transactions below:

	Liabilities arising from financing activities			
USD thousand	Non-current liabilities	Current liabilities	Lease liabilities	Total
Liabilities 1 January 2018	13 049	3 249	-	16 298
Cash flows	56 742	-	-	56 742
Transactions without cash effect				
Amounts recognized as a part of PPA	6 743	-	-	6 743
Fair value changes	(77)	-	-	(77)
Amortized cost effects	(1 559)	-	-	(1 559)
Net additions lease liabilities	0	-	-	-
Reclassification	(24 052)	24 052	-	-
Other changes	(9)	-	-	(9)
Liabilities as at 31 December 2018	50 837	27 301	-	78 138
Implementation IFRS 16	0	-	19 943	19 943
Liabilities as at 1 January 2019	50 837	27 301	19 943	98 081
Cash flows	-	(27 174)	(18 775)	(45 949)
Transactions without cash effect				
Fair value changes	(14 399)	-	-	(14 399)
Amortized cost effects	506	-	-	506
Net additions lease liabilities	-	-	23 358	23 358
Reclassification	(16 667)	16 667	-	-
Other changes	(190)	(127)	2 376	2 059
Liabilities as at 31 December 2019	20 087	16 667	26 902	63 656

23. Other current liabilities

Financial Reporting Principles

Trade and other payables are recognized at the original invoiced amount. The invoiced amount is considered to be approximately equal to the value derived if the amortized cost method would have been used.

A provision is a liability with uncertain timing and amount. Provisions are recognized when cash outflow is considered probable, the amount can be reliably estimated, and the obligation is a result of a past event. All provisions are presented as short-term as they are part of the operating cycle.

A contingent liability is a possible obligation that arises from past events that typically depends on a future event outside of the company's control, for example a court decision. A provision is made when it is considered as probable that cash outflow will take place, and the obligation can be measured reliably.

Significant judgements and critical estimates

Onerous customer contracts

The provisions for onerous contracts are estimated based on a number of assumptions and are highly judgmental in nature as they relate to total estimated losses on customer contracts upon completion.

The provision for onerous contract in south-east Asia as of 31 December 2018 of USD 7.3 million was reversed in the first quarter of 2019 upon completion of the project.

As of 31 December 2019, no onerous contracts are identified.

Restructuring costs

Following the acquisition of Fairfield seismic technologies businesses in December 2018, management has focused on streamlining the production processes and obtaining synergies through economies of scale. One key measure to obtain cost efficiency was the close-down of the US production facilities in Houston.

Overall the company reduced the number of FTEs by approximately 120 – or 18 percent – compared to the start of the third quarter 2019.

An agreement was reached with the local union representatives in October 2019, which specifies the number of staff involved and the redundancy compensation package offered by the Group, as well as amounts payable to those made redundant. The total estimated staff restructuring costs to be incurred are USD 8.1 million, of which 5.1 million is expected to be paid in 2020.

Other direct costs attributable to the restructuring, including costs incurred in relation to the cancellation of lease contracts for production and office premises in the US are USD 6.6 million. These costs were fully provided for in the current reporting period.

USD thousand	2019	2018
Accrued warranties	10 001	2 360
Accrued expenses	37 915	11 182
Contract liabilities*	-	15 578
Onerous contract (Malaysia)**	-	7 343
Accrued salary	18 245	8 427
Other	5 208	20 808
Total other current liabilities	71 369	65 698

*Refer to note 19 Trade receivables and contract assets / contract liabilities

** A provision for an onerous contract was made in 2018 for a contract in Malaysia, due to operational challenges and delays. The provision of USD 7.3 million consists of USD 7.0million provided for cost of sales and USD 0.4 million in depreciations related to the contract.

24. Financial risk management

Overview

The Group is exposed to a variety of financial risks; currency, interest rate, price, credit liquidity and capital risk. The objective of financial risk management is to manage and control financial risks exposure and thereby increase the predictability and minimise the potential adverse effects on the Group's financial performance. This also includes being able to meet the financial covenants related to the Group's borrowings.

Risk management

Financial risk management in the Group is maintained by a central Finance Function in accordance with the guidelines approved by the Board. The Group's Finance Function identifies, measures, mitigates and reports on financial risks in close cooperation with the various operating units. Risk management policies and procedures are reviewed regularly to consider changes in the market and the Group's activities.

Market risk

Market risk can be defined as the risk that the Group's income and expenses, future cash flows or fair value of financial instruments will vary as a result of changes in market prices. The market price includes three types of risks: exchange risks, interest risks and price risks. Market risk is monitored and managed continuously by the Group.

Foreign exchange risk

Magseis Fairfield is exposed to changes in foreign exchange rates. The primary currency risk relates to sales and purchases that are denominated in a currency other than the respective functional currency of the Group, United States dollar (USD). The currencies in which these transactions primarily are denominated are Norwegian krone (NOK), but also Euro (EUR), Pound Sterling (GBP), Singapore Dollars (SGD), Malaysian Ringgit (MYR), Swedish krona (SEK) and Saudi Arabian Riyal (SAR). Magseis predominantly sells products and services in United States dollars, and to a limited extent in other currencies.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level.

As shown below, the Group is primarily exposed to changes in the USD/NOK exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from the profit or loss for the period in the Group's foreign subsidiaries.

USD thousands	Increase/decrease in NOK/USD	Effect on EBITDA
2019	+10%	+5 838
	10%	(7 135)
2018	+10%	+4 077
	10%	(4 982)

Interest rate risk

The Group's interest rate risk is mainly related to loans where an element of interest rate is not fixed, where an increase in floating rates would lead to an increase in interest costs and reduce net income and cash flow.

The Group currently has one long-term interest-bearing loan.

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

Interest rate risk sensitivity analysis:

Effect of an interest rate increase of 100 bps

USD thousands	2019	2018
Carrying amount of interest-bearing debt excluding finance lease obligations	33 330	64 032
Effect on 1% increase in interest rate on profit before tax	333	640

Credit risk

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

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

Credit exposure* as of 31 December

USD thousands	Amortised cost / carrying value	
	2019	2018
Financial assets		
Cash and cash equivalents	53 432	68 110
Trade receivables	24 353	59 128
Other current assets	22 310	44 925
Total	100 095	172 163

*See also note 19 Trade receivables for additional information related to the loss allowance and for the aging analysis of the accounts receivable.

Liquidity risk

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

On 13 February 2020, the company completed a private placement of new shares raising NOK 277.4 million or approximately USD 30 million. Equity raised in tranche 1 of NOK 125.6 million is received and capital increase is registered. Remaining amount under the private placement is to be received in tranche 2, pending approval of Extraordinary General Meeting (EGM) on 6 March 2020. Subject to approval in EGM, the current loan agreement has been refinanced and will be converted to a Revolving Credit Facility (RCF) of USD 30 million with new covenants. See note 21 for further details.

Financial liability maturity schedule

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

Year ended 31 December 2019

	Carrying amount	Less than 3 months	3-12 months	1-2 years	2-5 years	Total
Non-current interest-bearing borrowings	15 824	-	-	17 248	-	17 248
Non-current non-interest-bearing borrowings	4 263	-	-	4 263	-	4 263
Current portion of interest-bearing liabilities	16 667	-	17 834	-	-	17 834
Lease liabilities	26 902	4 050	12 145	3 028	13 742	32 965
Trade payables	29 003	29 003	-	-	-	29 003
Total financial liabilities	92 659	33 053	29 979	24 539	13 742	101 313

Year ended 31 December 2018

	Carrying amount	Less than 3 months	3-12 months	1-2 years	2-5 years	Total
Secured loan facility	54 917	6 113	16 667	33 332	-	56 112
Non-current finance arrangement	23 462	-	4 800	8 215	9 888	22 903
Trade payables	48 037	48 037	-	-	-	48 037
Non-trade payables	36 944	36 944	-	-	-	36 944
Total financial liabilities	163 360	91 094	21 467	41 547	9 888	163 996

If the Group were to be unemployed for a longer period, it would need to manage its cost base and would, inter alia, seek to reduce costs or negotiate a grace period from some of its largest cost sources such as the time chartered vessels. The Group's asset light operating model, reflecting a relatively high variable cost base, conversion to an RCF facility and close follow up of working capital requirements, lowers the liquidity risk to a satisfactory level.

25. Capital management

The Group's objective for its capital management is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders, while maintaining an optimal capital structure to reduce the cost of capital. This includes being able to meet the financial covenants under the Group's credit facility.

The Board's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. Based on the strong growth, resulting in working capital requirements and investment programs, the Group's financial strategy has been to maintain a solid equity ratio and sufficient and applicable debt financing to ensure necessary liquidity.

26. Fair value measurement

Financial Reporting Principles

The Groups' use of derivative contracts is limited and only entered into for economic hedging purposes to reduce cash flow risk and not as speculative investments. Derivatives are classified as FVTPL and initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value through profit and loss at the end of each reporting period. The fair values are based on observable market prices obtained from external parties and are based on mid-range marked interest rates and prices, excluding margins, at the reporting date. The derivatives are defined as Level 2 in the fair value hierarchy. The derivatives are classified as a non-current asset or liability if the maturity date is later than 12 months from the balance sheet date and there is no intention to close the position within 12 months from the balance sheet date. Changes in the fair value of any derivative instrument are recognized immediately in profit or loss and are included in finance income or finance expense if they are economic hedges for financing related risks. Derivatives that are economic hedges for operational cash flows are included in operating gains and losses in the profit or loss statement.

The Group has no outstanding derivatives as of the balance sheet date and there has been no use of derivatives during 2019 or 2018.

Fair value estimates

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and short-term equity investments) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities and contingent consideration. Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

Warrants are included in level 2 where the fair values have been determined based on the Black–Scholes valuation model. Please see Note 27 Financial assets and financial liabilities for further information.

27. Financial assets and financial liabilities

Financial Reporting Principles

Financial assets and financial liabilities held by the Group consist of trade receivables, cash and cash equivalents, trade payables, borrowings, financial lease liabilities, derivatives and contingent consideration from the earn-out agreement relating to WGP Group and the Al Shaheen project.

Financial assets (excluding derivatives)

All financial asset, excluding derivatives, meet the SPPI (solely payments of principal and interest) criteria, and are managed in a business model of Hold to collect. These financial assets are in the measurement category amortized cost. The Group measures its trade receivables and cash and cash equivalents at amortized cost. Subsequent to initial recognition these assets are measured at amortized cost using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognized in the income statement. Financial assets are classified as current assets, except for those where management has the intention to hold the investment for over 12 month or financial assets with maturities later than 12 months after the balance sheet date. These assets are classified as non-current assets.

Financial liabilities (excluding derivatives)

The Group's financial liabilities consist of trade payables, contingent consideration, lease liabilities and borrowings. The Group initially recognizes financial liabilities at fair value net of transaction costs. Trade payables and borrowings are subsequently measured at amortized cost using the effective interest method. Transaction costs related to borrowings are amortized using the effective interest method over the maturity of the loan. Contingent consideration is subsequently measured at its fair value. Lease liabilities are measured in accordance with IFRS 16, refer to note 16.

At 31 December 2019, there are no differences between the amortized cost carrying amount and estimated fair value for any financial assets or financial liabilities measured at amortized cost. This also applies as of year-end 2018.

As a part of the consideration for the acquisition of Fairfield's seismic technology business, the Company issued 18 250 000 warrants. Each warrant gives the right to one new share in the Company, nominal value NOK 0.05, at a subscription price of NOK 25.425. Since the functional currency of Magseis Fairfield ASA is USD, whereas the warrants are settled in NOK, the IFRS definition of an equity instrument has not been met. As a result, the warrants are classified as a liability. The warrants were valued according to Black and Scholes model (BS) to market value as of December 2019 at USD 0.3million (USD 6.7 million in 2018). The warrants are adjusted to fair value at each reporting date with a corresponding charge to income statement.

As a part of the acquisition, an earn-out arrangement was recognized relating to the WGP Group. The earn-out, up to a maximum of USD 10 million, relates to the purchase, by Fairfield Geotechnologies, of the business and the assets of WGP Group Ltd (BVI) and its subsidiaries from Thalassa Holdings Ltd on 1 January 2018, and is contingent on WGP Group Ltd (UK) and/or its subsidiaries, successfully entering into agreements with a client on two prospective projects with an earn out potential of USD 6 million and USD 4 million respectively. At the date of the acquisition of WGP Group Ltd (UK) by Magseis Fairfield ASA on 18 December 2018, an agreement had successfully been entered into on the first project. This triggered the first payable of USD 4.8 million, of which USD 4.0 million remained outstanding as at 31 December 2019. The Al-Shaheen earn-out liability (refer to note 3.2) has been revised as of 31 December 2019, where it was reduced to USD 2 million.

Financial assets and financial liabilities:

USD thousands	Measured at amortised cost (2019)	Measured at FVTPL (2019)	Measured at amortised cost (2018)	Measured at FVTPL (2018)
Financial assets				
Cash and cash equivalents	53 432	-	60 384	-
Trade receivables	24 353	-	59 128	-
Total	**77 785**	**-**	119 512	-
Financial liabilities				
Borrowings*	32 491	-	66 604	-
Long-term non-interest-bearing loan	4 000	-	4 000	-
Lease liabilities	26 902	-	-	-
Warrants*	-	263	-	6 743
Trade payables	29 003	-	48 037	-
Total	**92 396**	**263**	**118 641**	**6 743**

* Borrowings consist of short-term USD 16.7 million (USD 22.5 million in 2018) and long term USD 15.8 million (USD 50.8million in 2018).

28. Pledged securities

Cash with book value of USD 53.4 million (USD 68.1 million), fixed assets with book value of USD 146.6 million (USD 161.3 million), trade receivables with book value of USD 24.3 million (USD 59.1 million) and inventory with book value of USD 18.9 million (USD 34.2 million) are pledged as security for the loan facility with DNB.

In addition, all shares in subsidiaries have been pledged as security for the loan facility. For additional information please see note 21 Borrowings.

29. Commitments

The Group has entered into contractual commitments for the acquisition of seismic equipment in 2020 amounting to USD 19.8 million as of 31 December 2019, all due within one year. Contractual commitments were USD 41 million as of 31 December 2018.

In addition, the Group has commitments for short-term leases of USD 17.7 million as of 31 December 2019, all due within one year.

30. Share-based payments

Financial Reporting Principles

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of the shares that will eventually vest, adjusted for the effect of non-market based vesting conditions.

For cash-settled share-based payments, a liability is recognized for outstanding remuneration and measured at fair value. Until settlement of the liability, the fair value of the liability is reassessed at each balance sheet date and settlement date and any changes in fair value are recognized through profit or loss.

The grant date for fair value of all share-based payments plan was calculated using the Black-Scholes-Merton option pricing model. Expected volatility is estimated by consider historic average share price volatility of comparable listed entities.

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

Overview of outstanding options:

Prices in USD	Number of instruments 2019	Weighted average strike price 2019 (NOK)	Number of instruments 2018	Weighted average strike price 2018 (NOK)
Outstanding at 1 January	525 000	16.42	1 120 000	16.59
Forfeited during the period	-	-	(378 000)	14.88
Exercised during the period	-	-	-	-
Expired during the period	(175 000)	21.24	(217 000)	22.62
Granted during the period	-	-	-	-
Outstanding at 31 December	350 000	14.26	525 000	15.37
Exercisable 31 December	300 000	14.03	300 200	16.42

No share options were granted to the employees in 2018 and 2019.

The share option program was replaced with a Right Share Unit (RSU)/Performance Share Unit (PSU) program in the Annual General meeting 2018, see further details in note 31.

Overview of outstanding RSUs and PSUs:

Prices in USD	Number of RSU's 2019	Average contractual life RSU's	Number of PSU's 2019	Average contractual life PSU's
Outstanding at 1 January	3 410 532	-	186 250	-
Released during the period	(119 958)	-	(66 253)	-
Granted during the period[1,2]	-	-	-	-
Oustanding at 31 December	**3 530 490**	**2.91**	**119 997**	**1.50**

[1] On 13 February 2020, it was announced that Mr. Hooijkaas was granted 713,928 RSUs under the RSU program. The RSUs vest on 1 October 2022.
[2] On 13 February 2020, it was announced that Mr. Ivin was granted 259,090 RSUs under the RSU program. The RSUs vest on 1 September 2022.

31. Management remuneration

Remuneration to the management in 2019

USD thousand		Base salary	Bonus 2018, Paid 2019	Variable pay	Bonus 2019 up to % of annual salary	Share incentive program	Pension & Other benefits	Total
Name	*Position*							
Carel Hooijkaas	CEO from 01.10.2019	156	-	363	50%	-	11	529
Mark Ivin	CFO from 01.09.2019	114	-	298	80%	-	4	416
Nils Halvor Heieren	CTO	160	79	-	50%	16	9	263
Tom Scoulios	COO	311	145	-	50%	-	-	456
Simon Hayter	CSO	258	88	-	50%	-	13	360
Ivar Gimse	SVP Business development	196	198	-	50%	20	32	446
Andrè Bjørvik	SVP Multi-Client	116	58	-	50%	12	23	208
Cathrin Bretzeg	SVP Human Resources	148	73	-	50%	16	20	257
Eivind Frømyr	Chief Geophysicist	179		-	50%	-	7	186
Management team as at year-end 2019		1 638	640	660	-	63	119	3 120
Per Christian Grytnes***	CEO up to 30.09.2019	187	125	1 104		29	9	1 364
Tom Henrik Sunby	CFO up to 08.03.2019	141	-	429		15	2	587
Kevin Crosby*	CFO 08.03.19-31.08.19	-	-	-		-	-	-
Bjørn Jensen	COO up to 09.07.2019	168	-	283		16	5	472
Jan Gateman (GEO Innova AS)**	EVP no longer part og EMT	219	-	-		-	-	219
Helene Dessagne	General Counsel up to 18.11.2019	110	66	-		5	9	190
Jens Petter Hamang	SVP Corporate Development 05.05.19-01.11.19	134	-	158		-	8	300
Susan Penty	SVP QHSE up to 16.12.201	145	-	291		16	9	461
Previous Management team		1 196	190	2 209		80	43	3 593
Total		2 743	831	2 835		143	162	6 713

*Kevin Crosby employed by Fairfield Geotechnologies
**Jan Gateman is engaged as an independent consultant as Senior Vice President: Mr. Gateman left the senior management team as from fourth quarter 2019. Mr. Gateman is a board member of Magseis Fairfield ASA.

Guidelines for remuneration to the CEO and senior executives
The main purpose of the senior executive remuneration programs is to encourage a strong and sustainable performance-based culture, which supports growth in shareholder value. The total remuneration to senior executives consists of base salary, cash incentive bonus and long-term equity-based incentives.

Bonus and variable pay
Bonus for 2019 has not been settled. Variable pay in the above table relates to sign on bonus for new CEO and CFO and severance pay for previous members of management team.

Share incentive program
Share incentive cost in the above table is related to options and Right Share Unit (RSU)/Performance Share Unit (PSU) programs vested and allocated during the year.

The 2018 Annual General Meeting approved replacing the share option program with the RSU and PSU program. The share option program will be fulfilled, but no new grants will be awarded. As of 31 December 2019, the total number of outstanding options to Management was 270,000, of a total of 350,000 share options outstanding issued to employees of the Group. 300,000 share options are exercisable as of year-end 2019 with an average strike price of NOK 14.26.

The shares in the RSU program shall become vested at grant date, and shares in the PSU program shall become vested over three years, where 33 percent of an award shall vest after the first calendar year following the grant date, 33 percent of an award shall vest after two calendar years following the grant date and 33 percent of an award shall vest after three calendar years following the grant date. Thomas Scoulios, Simon Hayter and Sharon Barclay are under a separate three-year cliff program, with all RSUs vesting after three years, i.e. on 18 December 2021.

Severance pays
The Chief Executive Officer is entitled to a severance pay equivalent to 18 months' salary, commencing at the end of the notice period, when the resignation is at the request from the company.

The Chief Financial Officers is entitled to a severance pay equivalent to 12 months' salary commencing at the end of the notice period, when the resignation is at the request from the company.

Magseis Fairfield has no outstanding loans or guarantees to any employees, managers or Directors.

Remuneration to the management in 2018

USD thousand		Base salary	Variable pay	Options	Pensions	Other benefits	Total
Name	*Position*						
P C Grytnes	CEO	233	46	-	12	3	293
M Ektvedt	CFO to 30.04.2018	81	-	-	2	-	83
T H Sundby	CFO from 01.04.2018	128	-	-	8	-	136
B Jensen	COO	167	-	6	10	-	183
Nils Halvor Heieren	CTO	161	-	6	10	3	180
J B Gateman	EVP	-	-	2	-	-	.2
S Penty	VP	145	-	6	12	2	165
P Steen-Hansen	VP to 30.03.2018	59	-	-	-	-	59
Andrè Bjørvik	VP from 01.04.2018	132	-	-	8	2	142
C R Berg	Chief Geophysicist to 30.04.2018	66	-	-	2	-	68
Ivar Gimse	SVP	221	-	42	11	1	275
H Dessagne	General Counsel	132	-	-	10	1	143
Cathrin Bretzeg	SVP Human Resources	142	-	-	12	-	154
Total		1 667	46	62	97	12	1 884

Remuneration to the Board of Directors, nomination committee and audit committee 2019

USD thousand

Board of Directors	Position	Board fees	Audit committee	Total
Wenche Kjølås	Chair of the Board	31	9	40
Jan B Gateman	Board member	60	-	60
Charles W. Davison	Board member	63	-	63
Luis Araujo	Board member	31	-	31
Bettina Bachmann	Board member	60	4	64
Edvin Endresen	Board member	63	4	67
Angela Durkin	Board member	31	-	31
Total		339	17	356

Wenche Kjølås, Luis Araujo and Angela Durkin were elected as Board members in General Meeting 22 May 2019. Mrs. Kjølås was elected as Chair of the Board on 22 November 2019, replacing Charles W. Davison as Chair.

Remuneration to the Board of Directors, nomination committee and audit committee 2018

USD thousand

Board of Directors	Position	Board Fee	Audit committee	Total
J P Grimnes	Chair of the Board, to 18.12.18	56	11	67
Charles W. Davison	Chair of the Board, from 18.12.18	-	-	-
J M Drange	Board member	29	3	32
Jan B Gateman	Board member	29	-	29
G G Haatveit	Board member	29	-	29
Bettina Bachmann	Board member	-	-	-
Edvin Endresen	Board member, from 23.05.18	-	-	-
Total		143	15	158

Number of shares and share options held by the management and Board of Directors 2019

Number of shares/ share options		Shares	Options	RSU's	PSU's
Name	*Position*				
Board of Directors					
Wenche Kjølås [1]	Chair of the Board	55 000	-	-	-
Jan B Gateman [2]	Board member	4 638 382	-	-	-
Charles W. Davison	Board member	-	-	-	-
Luis Araujo [3]	Board member	-	-	-	-
Bettina Bachmann [4]	Board member	-	-	-	-
Edvin Endresen [5]	Board member	20 000	-	-	-
Angela Durkin [6]	Board member	-	-	-	-
Management					
Carel Hooijkaas [7]	CEO	-	-	-	-
Mark Ivin [8]	CFO	-	-	-	-
Nils Halvor Heieren	CTO	12 727	20 000		13 333
Tom Scoulios	COO	-	-	156 320	-
Simon Hayter	CSO	-	-	86 442	-
Ivar Gimse	SVP Business development	946 214	250 000	-	16 666
Andrè Bjørvik	SVP Multi-client	15 500	-	-	10 000
Cathrin Bretzeg	SVP Human Resources	18 867	-	-	13 333
Eivind Frømyr	Chief Geophysicist	5 000	-	-	-
Total		5 711 690	270 000	242 762	53 332

[1] Mrs. Kjølås holds her shares in the company indirectly through Jawendel AS. In connection with Private Placement in February 2020, additional 296,038 were acquired, resulting in total number of 351,038 shares held through Jawendel AS.
[2] Mr. Gateman holds his shares in the Company indirectly through Geo Innova AS. In connection with Private Placement in February 2020, additional 1,176,470 were acquired, resulting in total number of 5,814,852 shares held through Geo Innova AS.
[3] On 14 February 2020, Mr. Araujo acquired 45,000 shares in the company.
[4] On 21 February 2020, Mrs. Bachman acquired 50,000 shares in the company.
[5] On 25 February 2020, Mr. Endresen acquired 40,000 shares in the company.
[6] On 14 February 2020, Mrs. Durkin acquired 78,892 shares in the company.
[7] On 13 February 2020, it was announced that Mr. Hooijkaas was granted 713,928 RSUs under the RSU program. The RSUs vest on 1 October 2022.
[8] On 13 February 2020, it was announced that Mr. Ivin was granted 259,090 RSUs under the RSU program. The RSUs vest on 1 September 2022.

Number of shares and share options held by the management and Board of Directors 2018

Number of shares/ share options		Shares	Options
Name	*Position*		
Board of Directors			
J P Grimnes (Redback)	Chair of the Board, to 18.12.18	3 218 289	-
Jan B Gateman (Geo Innova AS)	Board member, employee	4 613 382	15 000
Bettina Bachmann	Board member	3 789 505	-
J M Drange	Board member	-	-
G G Haatveit	Board member	-	-
Management			
P C Grytnes	CEO	111 111	-
B Jensen	COO	-	25 000
Nils Halvor Heieren	CTO	-	28 000
Jan B Gateman (Geo Innova AS)	EVP	4 613 382	15 000
S Penty	VP	-	28 000
Ivar Gimse (Gneis AS)	SVP	930 380	265 000
H Dessagne	General Counsel	-	-
Cathrin Bretzeg	SVP Human Resources	6 200	-
Total		12 668 867	361 000

32. IFRS issued but not yet effective

The following standards and interpretations have been issued but are not mandatory for annual reporting periods ending on 31 December 2019. Standards and interpretations not affecting the Group have not been disclosed.

Definition of a Business – Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Definition of Material – Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting

Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information,
- and that an entity assesses materiality in the context of the financial statements as a whole, and
- The meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

33. Events occurring after the reporting date

On 13 February 2020, the company completed a private placement with gross proceeds of NOK 277.4 million or approximately USD 30 million. Tranche 1 of the placement, NOK 125.6 million, has been received and is registered. Tranche 2 is pending approval of Extraordinary General Meeting (EGM) on 6 March 2020. Subject to approval in EGM, the current loan agreement has been refinanced and will be converted to a Revolving Credit Facility (RCF) of USD 30 million with new covenants. See note 21 Borrowings for further details.

On 17 February 2020, Magseis Fairfield signed a system sales contract for delivery of Z100 nodes to an existing client in Asia. The delivery complements the client's existing Z100 system and enhances their ability to execute large scale transition zone and shallow water Ocean Bottom Node surveys.

Magseis Fairfield ASA
Financial Statements

Statement of comprehensive income

USD thousand		2019	2018
Revenues			
Revenues	3	147 687	85 821
Operating expenses			
Cost of sales	4	(98 862)	(45 653)
Research and development expenses	5	(4 134)	(1 936)
Selling, general and administrative costs and other expense	5	(27 133)	(18 592)
Depreciation and amortization	9,10	(14 224)	(17 136)
Impairment	11	(14 121)	-
Total operating expenses		(158 475)	(83 317)
Operating profit/(loss)		(10 788)	2 504
Financial income	6	16 329	2 361
Financial expenses	6	(3 967)	(4 653)
Impairment of investments in subsidiaries	11	(153 734)	-
Net financial income/(expenses)		(141 372)	(2 292)
Net profit/(loss) before tax		(152 159)	212
Income tax expense	7	(614)	(1 570)
Net profit/(loss)		(152 774)	(1 358)
Statement of comprehensive income			
Other comprehensive income		-	-
Total comprehensive income/(loss) for the period		(152 774)	(1 358)

Statement of financial position

As of 31 December

USD thousands	Note	2019	2018
Other intangible assets	10,11	-	4 569
Property, Plant and Equipment	9,11	59 781	77 962
Investments in subsidiaries	1,11	110 934	254 497
Total non-current assets		170 715	337 028
Cash and cash equivalents	13	14 924	51 174
Trade receivables	15	949	12 265
Inventories	14	4 860	1 644
Other current assets	15,16	73 206	35 975
Total current assets		93 939	101 058
Total assets		264 654	438 087
Share capital	2	1 167	1 166
Share premium	2	382 148	382 152
Other equity		(195 377)	(45 143)
Total equity		187 939	338 175
Interest bearing liabilities	17,18	15 824	32 175
Non-interest bearing liabilities	17,18	263	14 624
Lease liabilities	12,18	1 179	-
Total non-current liabilities		17 266	46 799
Trade payables		2 422	5 720
Current portion of interest-bearing liabilities	17,18	16 667	22 501
Current portion of lease liabilities	12,18	597	-
Current tax payable	7	150	(109)
Other current liabilities	19	39 614	25 000
Total current liabilities		59 449	53 112
Total liabilities		76 715	99 912
Total equity and liabilities		264 654	438 087

Board of Directors and CEO of Magseis Fairfield ASA

Lysaker, 27 February 2020

[Sign.]

Wenche Kjølås
Chair of the Board of Directors

Jan Gateman

Bettina Bachmann

Edvin Endresen

Angela Durkin

Luis Araujo

Charles W Davison Jr

Carel Hooijkaas
CEO

Statement of changes in equity

USD thousands	Share capital	Share premium reserve	Share based payments reserve	Other equity	Total
Balance 1 January 2019	1 166	382 152	3 244	(48 387)	338 175
Share issuance	1	(2)	-	-	(1)
Expenses related to share issuance	-	(1)	-	-	(1)
Share based payments	-	-	2 540	-	2 540
Profit/(loss) for the period	-	-	0	(152 774)	(152 774)
Balance 31 December 2019	1 167	382 149	5 784	(201 162)	187 939

Statement of cash flows

USD thousands	Note	2019	2018
Cash flows from operating activities			
Profit/(loss) before tax		(152 159)	212
Income taxes and WHT paid	7	(614)	(1 666)
Depreciation, amortization and impairment	9,10,11	182 079	17 136
Share-based payment expenses	25	2 540	(40)
Finance expenses	6	3 967	1 461
Finance income	6	(16 329)	(416)
Cost of sales used nodes, non-cash effect	9	28 820	9 221
Other non-cash effect		-	(438)
(Increase)/decrease in current assets		10 380	(29 349)
Increase/(decrease) in current liabilities		4 566	(21 124)
Net cash from operating activities		63 249	(25 003)
Interest received	6	476	106
Aquisition of equipment	9	(51 272)	(176 669)
Investment in subsidiaries (settlement of seller's credit)		(3 250)	(31 238)
Loans to subsidiaries	8	(18 262)	-
Net cash used in investing activities		(72 307)	(207 801)
Proceeds from loan	17,18	-	50 027
Down-payments of interest-bearing liabilities	17,18	(22 374)	-
Payment of lease liabilities	12,18	(641)	(4 033)
Proceeds from issue of shares	2	-	183 823
Expenses related to issue of shares	2	-	(7 597)
Interests paid	6	(4 177)	(708)
Net cash from financing activities		(27 192)	221 512
Net change in cash	13	(36 250)	30 957
Cash at period start	13	51 174	20 217
Cash at period end		14 924	51 174

Notes to the financial statements

1. General Information and Basis of preparation

General Information

Magseis Fairfield ASA is a public limited company incorporated in Norway. The Company's registered office is at Strandveien 50, Lysaker, Norway.

Basis of preparation

Statement of compliance

The financial statements are prepared in accordance with the simplified application of International Financial Reporting Standards (Norwegian Forenklet IFRS) in accordance with the Norwegian accounting act § 3-9 and the related directive. The directive refers to the general recognition and measurement requirements in IFRS as endorsed by the European Union, but with certain exemptions.

The financial statements were authorized for issue by the Board of Directors and the chief executive officer (CEO) on 27 February 2020. The financial statements will be presented to the Annual General Meeting on 23 April 2020 for approval. Until this date the Board of Directors has the authority to amend the financial statements.

Financial reporting principles

Magseis Fairfield ASA prepared its financial statements for 2018 in accordance with IFRS. The transition to financial statement preparation based on simplified IFRS in accordance with the Norwegian Accounting Act § 3-9 and the related directive has not affected any recognition or measurement criteria, neither for the current year or for comparative reporting periods.

The relevant exemption applicable to Magseis Fairfield relates to the recognition of Group contributions (Norwegian "konsernbidrag"). Group contributions and dividends under simplified IFRS may be recognized in accordance with Norwegian generally accepted accounting principles for the distributing and receiving entity. This means that the distributing entity may recognize a liability when the contribution or dividend is proposed, but before it has been approved. The receiving entity may also recognize the dividend or contribution receivable before it has been approved.

Disclosure requirements are in accordance with the directive, which refers to disclosure requirements in accordance with the Norwegian Accounting Act chapter 7 and Norwegian generally accepted accounting principles, with certain differences.

If not included in the notes below, the Company's significant accounting policies are disclosed in relevant sections in the consolidated financial statement. These principles have been applied consistently in all periods presented in the financial statements, unless stated otherwise.

Basis of measurement

The financial statements are prepared in accordance with the historical cost principle, with the exemption of derivatives which are measured at fair value.

Judgements and estimates

Preparation of financial statements in accordance with simplified IFRS requires the use of estimates. The application of Company's accounting principles further requires management to apply judgement.

New Financial Reporting Standards

Certain new or revised standards, amendments or interpretations of existing standards have been implemented, please see note 2.9 in the consolidated financial statement and note 12 Leases. For standards issued but not yet effective, please see note 32 in the consolidated financial statements.

Going concern

The financial results for the Company were characterised by financial and operational challenges, resulting in significant impairment, write offs and other special items impacting the numbers negatively. Although the Company's backlog for 2020 has increased significantly during Q4 2019 and further in the first months of 2020, the current order backlog provides limited support for the 2020 forecast. Significant positive steps are taken in the Company's turn-around with restructuring measures and capex and cost cuts implemented. A private placement was undertaken on 13 February 2020, raising NOK 277.4 million, or approximately USD 30 million, in gross proceeds. Tranche 1 of the placement, NOK 125.6 million, has been received and is registered. Tranche 2 is pending approval of Extraordinary General Meeting (EGM) on 6 March 2020. Subject to approval in EGM, the current loan agreement has been refinanced and will be converted to a Revolving Credit Facility (RCF) of USD 30 million with new covenants. Following these steps, the company's liquidity is strengthened, and the company is well positioned for profitable growth.

Management has made its best judgements in its evaluation of the going concern assumption. Although there are uncertainties related to events or conditions that might impact the future cash flows, management is of the opinion that the going concern assumption is appropriate and the accounts are prepared under the going concern assumption.

Shares in subsidiaries

Year ended 31 December 2019

USD thousands	Incorporation	Total equity	Net income/ (loss) 2019	Carrying value
Magseis Operations AS	Norway	3 026	(16 121)	3 026
Magseis Technology AB	Sweden	701	304	6
Magseis Malaysia Sdn. Bhd.	Malaysia	861	(99)	861
Magseis Singapore Services Pte. Ltd.	Singapore	(314)	68	-
Magseis Brazil Ltda	Brazil	131	(43)	131
Magseis FF AS	Norway	86 878	(132 845)	86 878
Magseis Fairfield Industries International Ltd	UK	20 032	(5 639)	20 032
Total		111 315	(22 606)	110 934

The Company holds 100 percent of all shares and all voting rights for its subsidiaries. Main operations for all subsidiaries are Geophysical services, beside the holding company Magseis FF AS and Magseis Technology AB where product development is the main activity.

2. Share information

	Number of shares	Share capital USD '000	Share premium USD '000
At 1 January 2018	60 892 391	438	141 486
1 February 2018: Privat placement at NOK 18.00 per share	6 089 239	40	14 229
Transaction costs	-	-	(1 351)
21 February 2018: Private placement at NOK 18.00 per share	10 577 428	68	24 244
Transaction costs	-	-	(101)
17 and 19 December 2018: Private placement at NOK 18.00 per share	107 423 304	621	209 790
Transaction costs	-	-	(6 146)
31 December 2018	184 982 362	1 167	382 152
14 January 2019: Repair offering at NOK 16,95 per share	2 019	-	4
Transaction costs			(1)
14 April 2019: Share issuance - employee incentive	186 211	0.05	1
Transactions costs	-	-	(6)
31 December 2019	185 170 592	1 167	382 148

Nominal value

The nominal value of the shares is NOK 0.05. The share capital is fully paid. Magseis Fairfield ASA has one class of shares, ordinary shares, with equal rights for all shares. The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at general meetings.

Share based payments reserve

Share-based payments represent a cost charged to the income statement over the vesting period based on the fair value measured at grant date for equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

The 20 main shareholders as at 31 December 2019 are as follows:

	Number of shares	Ownership interest
Fairfield MS LLC	33 500 000	18.90 %
Morgan Stanley & Co. LLC	17 053 228	9.21 %
U.S. Bank National Association	6 631 815	3.58 %
ANFAR INVEST AS	6 196 856	3.35 %
AS CLIPPER	6 196 521	3.35 %
WESTCON GROUP AS	5 661 436	3.06 %
KAS Bank N.V.	5 000 000	2.70 %
VERDIPAPIRFONDET KLP AKSJENORGE	4 857 948	2.62 %
STRAWBERRY CAPITAL AS	4 796 417	2.59 %
GEO INNOVA AS	4 638 382	2.50 %
SEI INSTITUTIONAL INTERNATIONAL	3 951 782	2.13 %
Merrill Lynch Prof. Clearing Corp.	3 900 000	2.11 %
REDBACK AS	3 578 289	1.93 %
KOMMUNAL LANDSPENSJONSKASSE	3 411 771	1.84 %
VERDIPAPIRFONDET NORDEA NORGE VERD	3 197 733	1.73 %
JPMorgan Chase Bank	3 058 667	1.65 %
REGENTS OF THE UNIVERSITY OF MICHI	2 669 079	1.44 %
VERDIPAPIRFONDET NORDEA KAPITAL	2 472 872	1.34 %
VERDIPAPIRFONDET PARETO INVESTMENT	2 340 000	1.26 %
BARRUS CAPITAL AS	2 292 351	1.24 %
Total largest shareholders	**125 405 147**	**68.53 %**
Other shareholders	59 765 445	31.47 %
Total outstanding shareholders	**185 170 592**	**100 %**

3. Revenue from customer contracts

Revenue from contracts with customers

Revenue from contracts with customers arise primarily from the delivery of exclusive seismic services, granting of licenses to the Company's Multiclient survey data library, marine geophysical services and sales of nodes and other equipment.

Revenue is recognized at the amount that the Company expects to be entitled to and expects to collect under the customer contracts. If a customer contract consists of multiple performance obligations, the consideration is allocated among the performance obligations based on their estimated relative fair values. Amounts received from customers in advance of the Company satisfying its performance obligations are recognized as a contract liability. In the rare event the Company has satisfied a performance obligation and is otherwise entitled to compensation under the contract but there is a significant uncertainty as to ultimately collecting the compensation, revenue recognition is deferred until such uncertainty no longer exists. When the Company has satisfied its performance obligations and has a right to the agreed consideration, revenue is recognized.

The principles applied for each of the main types of contracts with customers are described in more detail below.

Proprietary acquisition projects/Reservoir monitoring/Source

The Company performs ocean bottom seismic services in accordance with customer specifications, and where the customer retain ownership to the seismic data gathered. These contracts are considered to contain one single performance obligation, and the performance obligation is satisfied over time since the Company performs the service at the customer specification, the resultant seismic data is retained by the customer and the Company has no alternative right to otherwise utilize or benefit from the data.

The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is normally due based on the contractually agreed payment plan when legal title to the seismic data has been transferred. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds 12 months. The transaction price is therefore not adjusted for the effects of a significant financing component. The project is measured based on the physical progression, and revenue is recognized based on the ratio of the project's progress to date (percentage of completion), provided that the performance obligation is satisfied. Revenue recognition can be based on various parameters, such as length of cable deployed, number of shots, square kilometres of acquired data or time progressed.

Multi-client surveys

The multi-client library consists of seismic data surveys which are licensed to customers on a non-exclusive basis. Revenues generated from multi-client surveys falls into two categories:

Pre-commitment arrangements – Comprise of contracts where the Company obtains pre-funding from customers before a seismic project is started, or during the project period. These pre-commitments cover specific areas or license blocks. In return for the commitment, the customer obtains early access to the data, favourable pricing compared to late sales and a degree of influence over the project scope. 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.

Late sales – Comprise of contracts where the Company grants a license entitling non-exclusive access to utilize a defined portion of the multi-client data library in exchange for a fixed payment. Revenue is recognized at the point in time when the customer has been granted access to the data.

For multi-client library 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 share of the investment in the multi-client library, its share of revenues from the sale of the multi-client survey, related amortization, and expenses. When a partner holds the right to market and sell the project and invoices and collects from the customer, Magseis Fairfield recognizes its share of related accounts receivables. No such arrangements were in place in 2019, but Magseis Fairfield has entered into an agreement with an established multi-client company to participate in a multi-client project, which is expected to commence late in the first quarter of 2020.

Revenue from sale of nodes

The Company provides the sale of nodes to external customers, where each sale is defined as a customer contract. The sales contracts normally include one performance obligation which is satisfied upon the delivery of an agreed number of nodes in accordance with the agreed specifications. Revenue is recognized at the point in time when the control of the goods is transferred to the customer, which occurs when the products have been shipped to a contractual agreed location, and the risks of obsolescence and loss have been transferred to the customer. The revenue is measured at the transaction price as agreed under the contract.

Other services revenue

Customer contracts for other marine geophysical services are similar in nature and terms to the proprietary contract sales. Revenue is recognized over time as the Company satisfies the performance obligation and is

entitled to the compensation under the contract. Lease income is recognized on a straight-line basis over the lease period.

Significant judgements

The deliveries in the customer contracts are reviewed to identify distinct performance obligations, and this assessment may involve significant judgement. For most of the identified performance obligations for Proprietary acquisition projects, control has been assessed to be transferred to the customer over time as the performance obligation is satisfied. Revenue is recognized over time using either a cost-based progress method, or revenue is recognized as physical progress of the project represents the transfer of seismic data to the customer. These methods are assessed to best reflect the pattern of transfer of control of goods and services to the customer.

Disaggregation of revenue

In accordance with IFRS 15 management analyses the revenue contracts with customers and disaggregates the revenue into the following product categories, which depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors:

- Proprietary acquisition projects
- Multi-client surveys
- Revenue from sale of nodes
- Other service revenues

Revenue from customers is disaggregated in the table below by geographical location, by type of product, and by the timing of the revenue.

Disaggregation of revenue from contracts with customers:

USD thousand	Multi-client surveys	Revenue from sale of nodes	Other services*	2019
Norway	2 175	376	13 137	15 688
USA	-	4 213	-	4 213
Asia	-	112 166	-	112 166
Revenue from contracts with customers	2 175	116 755	13 137	132 066
Point in time revenue recognition				
Multi-client surveys	2 175	-	-	2 175
Revenue from sale of nodes	-	116 755	-	116 755
Point in time revenue recognition	2 175	116 755	-	118 930
Over time revenue recognition				
Other services revenues	-	-	13 137	13 137
Total over time revenue recognition	-	-	13 137	13 137
Lease income (intercompany)	-	-	-	15 621
Total revenue and income	-	-	-	147 687

USD thousand	Proprietary acquisition	Revenue from sale of nodes	Other services*	2018
Norway	-	-	25	25
Asia	44 947	40 849	-	85 796
Revenue from contracts with customers	44 947	40 849	25	85 821
Point in time revenue recognition				
Revenue from sale of nodes	-	40 849	-	40 849
Total point in time revenue recognition	-	40 849	-	40 849
Over time revenue recognition				
Proprietary acquisition projects	44 947	-	-	44 947
Other services revenues	-	-	25	25
Total over time revenue recognition	44 947	-	25	44 997

*Other services include revenue from seismic support services.

Assets and liabilities related to contracts with customers

Contract assets and contract liabilities from customers are disclosed below:

Management expects that virtually all of the transaction price allocated to the unsatisfied contracts as of 31 December 2019 will be recognized as revenue during the next financial year.

Contract assets

Contract assets are recognized whenever a performance obligation is satisfied before the point in time where we have right of invoicing. This relates mainly to proprietary acquisition projects arrangements where the timing of invoicing is decided by the customer contract. No contract assets were recognized as of 31 December 2019 or the prior reporting date.

Contract liabilities (Advance payments from customers)

Advance payments from customers is recognized if the Company receives consideration or if it has the unconditional right to receive consideration in advance of performance. A portion of the Company's customers pay fees in advance, and these prepayments are recognized as non-financial debt and will be settled in the Company's services.

No contract liabilities were recognized as of 31 December 2019 or the prior reporting date.

4. Costs of sales

USD thousand	2019	2018
Charter hire and running expenses	7 624	5 368
Crew costs and operational expenses	1 869	4 908
Costs of sales of finished goods	60 552	21 003
Fuel costs	25	5
Batteries and other instruments	17 216	6 518
Other costs of sales	11 576	7 851
Total costs of sales	98 862	45 653

5. Other operating expenses

Financial Reporting Principles

Other operating expenses are recognized in the period in which the associated goods and services are delivered to the Company. Personnel expenses include wages, salaries, social security contributions, sick leave, parental leave and other employee benefits. The benefits are recognized in the year in which the associated services are rendered by the employees. At the end of 2019, the company had a total of 95 FTEs, with 75 employees and 20 contractors.

USD thousand	2019	2018
Research and development expenses		
Corporate and consultant costs	4 134	1 936
Total research and development expenses	4 134	1 936
Selling, general and administrative expenses		
Salary and social expenses	15 940	13 927
Administrative expenses	5 720	2 859
Other expenses	5 473	1 806
Total selling, general and administrative expenses	27 133	18 592
Salary and social expenses are specified as such		
Salary	9 247	11 752
Social security tax	1 547	1 212
Pension costs	449	479
Share-based payments	2 540	38
Other personnel cost	2 158	446
Total salary and social expenses	15 940	13 927

For the Norwegian employees the Company are obliged to provide an employment pension plan. Magseis Fairfield ASA has a defined contribution plan that meets this requirement. The expected contributions to be paid in 2020 is in line with the contributions in 2019.

Auditors remuneration:

USD thousand	2019	2018
Audit services		
Audit of annual financial statements	203	112
Other services		
Other assurance services	71	211
Total audit remuneration	**274**	**323**

Other assurance services in 2018 relates to attestation services in connection with business acquisitions.

6. Financial income and expense

Interest income include effects from using the effective interest rate method where fees, interest paid, transaction costs and other premiums are deferred and amortized over the life of the instrument. Net effects from fair value gains or losses on financial assets at fair value through profit or loss, and adjustments to the carrying amount of financial liabilities at amortized cost are recognized in other financial items.

Foreign exchange gains and losses arise upon settlement of monetary assets and liabilities that are not hedged. Foreign exchange gains and losses also include the effects from translating monetary assets and liabilities denominated in foreign currencies at the balance sheet date.

Financial income includes interest income from financial assets held for cash management purposes, and financial costs includes borrowing costs, interest expenses in respect of lease liabilities and exchange differences arising from foreign currency borrowings.

Financial income and expense:

USD thousand	2019	2018
Revaluation of warrants	6 479	166
Interest income	2 590	416
Foreign exchange gains	1 234	1 770
Other financial items	6026	10
Total financial income	16 329	2 361
Interest expense on loan facility	(1 410)	(65)
Interest expense on financial leases	(118)	(373)
Bank guarantees and other bank charges	(1 379)	(752)
Unrealised foreign exchange losses	(116)	(10)
Foreign exchange losses	(1 061)	(3 453)
Total finance expense	(3 967)	(4 653)
Net finance income/(expense) excl. impairment	12 362	(2 292)

Other financial items relate to reversal of previous recognised contingent liability of USD 6 million. In addition, USD 2 million in previously accrued interest expenses on the contingent liability has been reversed, reflected in reduced interest expense in the table above.

7. Income tax

Financial Reporting Principles

Income tax consists of current tax, effect of change in deferred tax positions and withholding tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date that will be paid during the next 12 months. Current tax also includes any adjustment of taxes from previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation purposes. Deferred tax is measured at the tax rates

expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences.

Income tax expense specification:

USD thousand	2019	2018
Current tax:		
Tax payable	-	-
Withholding taxes and Permanent Establishment taxes	614	1 570
Deferred tax:		
Changes in deferred tax	-	-
Tax expense	614	1 570

A reconciliation of the effective rate of tax and the tax rate in parent's country of registration:

USD thousand	2019	2018
Net profit/ (loss) before tax	(152 774)	212
Income taxes calculated at 22% / 23%	(33 610)	49
Changes in temporary differences	(135)	-
Changes in unrecognized deferred tax asset	1 109	-
Non-deductible expenses	32 968	(134)
Use of withholding tax	(131)	-
Withholding taxes paid	615	1 570
Other	(202)	85
Tax expense	614	1 570

The Company has unutilized tax losses of USD 25.6 million in 2019 available to be offset against future taxable income. The deductible temporary difference and tax losses do not expire under current tax legislation. The net deferred tax asset for the Company has not been recognized on the basis that it does not meet the criteria for asset recognition as the Company currently cannot document that the future taxable income can be utilized against available tax losses. The applicable Norwegian tax rate is 22 percent (23 percent in 2018).

Deferred tax assets and liabilities, none of which none are recognized:

USD thousand	2019	2018
Non-current assets	4 192	3 873
Non-current liability	-	(1 861)
Current liabilities	(3 792)	(1 726)
Tax- losses carried forward	(5 632)	(6 628)
Total (assets)/liabilities	(5 232)	(6 341)
Not recognized deferred tax assets	5 232	6 341
Net recognized deferred (assets)/liabilities	-	-

8. Related party and intercompany transactions

Financial Reporting Principles

Related parties' relationships are defined to be entities outside the Company that are under control (either directly or indirectly), joint control or significant influence by the owners, Board of Directors or Management of Magseis Fairfield ASA. Related parties are in a position to enter into transactions with the Company that would potentially not be undertaken between unrelated parties. The terms and conditions of the transactions with related parties are considered to be on an arm's length basis.

The aggregate value of transactions and outstanding receivables/payables with group companies were as follows:

2019 USD thousand	Income from lease of equipment and seismic services	Income for management fee	Interest income	Seismic equipment & services	Net receivable/ (liability)
Magseis Operations AS	21 056	5 148	987	572	20 241
Magseis Singapore Services Pte. Ltd	2 128	326	-	1 077	(175)
Magseis Malaysia SDN BHD	(2 232)	345	-	-	-
Magseis Technology AB	-	308	-	3 731	(858)
Magseis USA LLC	-	-	-	-	-
Magseis FF AS	-	-	347	-	-
Magseis Fairfield LLC	311	817	776	13 002	7 683
WGP Group Ltd	69	115		609	128
Total	21 333	7 059	2 110	18 991	27 018

2018 USD thousand	Income from lease of equipment and seismic services	Income for management fee	Interest income	Seismic equipment & services	Net receivable/ (liability)
Magseis Operations AS	35 695	5 083	-	1 826	20 361
Magseis Singapore Services Pte. Ltd	3 391	339	-	1 352	7 407
Magseis Malaysia SDN BHD	-	-	-	38	3 413
Magseis Technology AB	-	339	-	3 515	(473)
Magseis USA LLC	-	5	-	-	6
Total	39 086	5 766	-	6 731	30 714

The aggregate value of transactions and outstanding receivables/payables with related parties were as follows:

			Transaction value		Trade payables	
USD thousand			2019	2018	2019	2018
Westcon Group (shareholder)	Leases	(I)	876	1007	(6)	-
J B Gateman	Consultant cost	(II)	270	177	(59)	(60)
Total			1 145	1 183	(65)	(60)

(I) Relates to time chartes (TC) for the vessel Artemis Athene. Westcon Group also delivers Marine Management services.

(II) J B Gateman is engaged as an independent consultant as Senior Vice President

9. Property, plant and equipment

Financial Reporting Principles

Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses. Components of property, plant and equipment with different useful lives are accounted for separately. Assets are normally depreciated on a straight-line basis over their expected economic lives as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Equipment under construction is classified as a non-current asset and recognized at the cost, it is not depreciated until the non-current asset is ready for use.

Borrowing costs are capitalized as part of the cost of the asset when significant. The cost of self-constructed assets includes the cost of materials, direct labour, production overheads and borrowing cost.

Impairment triggers are assessed quarterly, and impairment testing is performed when triggers have been identified.

Judgement and Estimates

Judgement is involved when determining the depreciation period and when assessing impairment or reversal of impairment. Impairment is assessed for individual assets and for cash generating units. The impairment testing involves judgmental assumptions about future market development, cashflows, determination of weighted average cost of capital (WACC), growth rate and other assumptions that may change over time.

USD Thousand	Seismic equipment	Asset under construction	Furniture fixtures etc.	Right-of-use assets	Total
Accumulated cost					
Balance at 1 January 2018	71 984	24 882	1 068	-	97 934
Reclassification asset under construction	48 364	(48 573)	-	-	(209)
Additions	1 728	43 448	-	-	45 176
Disposal	(22 714)	-	-	-	(22 714)
Balance at 31 December 2018	99 362	19 757	1 068	-	120 187
Implementation of IFRS 16	-	-	-	2 279	2 279
Reclassification asset under construction	1 636	(1 806)	170	-	-
Additions	31 955	19 003	314	-	51 272
Disposals	(41 786)	(19 135)	-	-	(60 921)
Balance at 31 December 2019	91 167	17 818	1 553	2 279	112 945
Accumulated Depreciation and Impairment					
Balance at 1 January 2018	(28 754)	-	(420)	-	(29 174)
Depreciation for the year	(15 494)	-	(173)	-	(15 667)
Disposals	2 617	-	-	-	2 617
Balance at 31 December 2018	(41 631)	-	(593)	-	(42 225)
Depreciation for the year	(13 005)	-	(237)	(536)	(13 778)
Acc. depreciation sold/scrapped assets	12 965	-	-	-	12 965
Impairment	(9 831)	-	(167)	-	(9 998)
Balance at 31 December 2019	(51 502)	-	(997)	(536)	(53 036)
Net carrying amounts					
at 1 January 2019	57 731	19 757	475	-	77 962
Balance at 31 December 2019	39 665	17 818	555	1 743	59 781

Commitments

The Company has entered contractual commitments for the acquisition of seismic equipment in 2020 amounting to USD 17.8 million as of 31 December 2019.

10. Other intangible assets

Financial Reporting Principles

Research and development costs are expensed as incurred until a program has completed the concept phase.

Development activities involve a plan or design to produce new or substantially improved products and processes. Development costs are only capitalized if the product or process is technically and commercially feasible and the business case shows a positive net present value. Capitalized development costs mainly include internal labour costs in addition to materials for the development program. Any third-party funding is presented as a reduction of the capitalized amount.

Capitalized development costs are amortized over three to six years on a straight-line basis.

Other intangible assets:

USD thousand	Other intangibles
Accumulated investments	
Balance at 1 January 2018	7 373
Additions/disposals	-
Balance at 31 December 2018	7 373
Accumulated amortization and impairment	
Balance at 1 January 2018	(2 804)
Amortization for the period	(456)
Impairment for the period	(4 113)
Balance at 31 December 2019	(7 373)
Carrying amounts	
Balance at 1 January 2019	4 569
Balance at 31 December 2019	-

11. 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 purposes 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

Management identified several impairment indicators as the financial guidance on EBITDA for 2019 was reduced from USD 100m to USD 45-55m and the share price fell from NOK 10 per share to NOK 5 per share. Further, synergies from the recent acquisition of Fairfield and WGP had not materialized as expected. It was clear that the project margins had not developed as expected and the backlog had been reduced throughout the year. Consequently, management revised the Group's prognoses and long-term market outlook. As a result of these impairment indicators, management made an impairment test. This test indicated that the recoverable amount tested was lower than the carrying amount, resulting in a recognized impairment charge of USD 167.9 million.

USD thousand	2019	2018
Asset category		
Shares in subsidiaries	153 734	-
Other Intangible assets	4 123	-
Property, plant and equipment	9 998	-
Total impairment of non-current assets	167 855	-

Impairment of shares in subsidiaries

Impairment of shares in subsidiaries relates primarily from Magseis ASA acquiring of Fairfield's seismic technologies businesses in December 2018. The acquisition of Fairfield's seismic technology business and WGP was motivated by complimenting technology, common market presence and synergies across legal entities. However, synergies from the acquisition has not materialized as expected, and revenue and cash flow prognoses has thus been updated.

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 amount of shares in subsidiaries was:

- Cash flow projections based on updated budgets and forecasts for the period including 2023, with an estimation of terminal value in subsequent periods. These projections include both awarded projects and assumed project wins based on the long-term market outlook.
- Terminal value reflect long term steady state revenue and margin levels based on a combination of historic levels and judgements applied
- Annual growth rate of two percent is used in calculating the terminal value.
- The post-tax discount rate applied in the testing is 8.8 percent.
- The Group is treated as one CGU for impairment purposes, as both the management operating model and segment reporting are prepared on an overall Group level.

Impairment of PPE and other intangible asses

The impairment of property, plant and equipment and other intangible assets relates primarily to node development projects and obsolete seismic equipment where little or no future revenue is expected to be generated, thus indicating that the recoverable amount of these assets is close to nil.

12. Leases

Financial Reporting Principles

The Company has adopted the new accounting standard IFRS 16 Leases with effect from 1. January 2019. For information on implementation policies, please referee to note 16 in the Group's consolidated financial statements. The implementation effects for the company are disclosed in the table below.

Right-of-use-assets:

USD Thousand	Offices	Total
Carrying value		
Balance at 1 January 2019	-	-
Leases capitalized due to implementation of IFRS 16	2 416	2 416
Balance right-of-use assets 1 January 2019	2 416	2 416
Additions	-	-
Depreciation	(536)	(536)
Impairment	-	-
Other adjustments	(137)	(137)
Balance at 31 December 2019	1 743	1 743

Lease liabilities:

USD Thousand	Non-current	Current	Total
Carrying value			
Leases capitalized due to implementation of IFRS 16	1 849	567	2 416
Balance right-of-use assets 1 January 2019	1 849	567	2 416
Additions	-	-	-
Reclassification to current	(29)	29	-
Lease payments	(641)	-	(641)
Other adjustments	-	-	-
Balance at 31 December 2019	1 179	596	1 775

The right-of use assets are depreciated over the contract period on a straight-line basis.

13. Cash and cash equivalents

Financial Reporting Principles

Cash and cash equivalents include cash on hand, demand deposits in banks and other short-term highly liquid deposits with original maturity of three months or less.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

While cash and cash equivalents are subject to the impairment requirements of IFRS 9, the expected credit losses are immaterial.

USD thousand	2019	2018
Unrestricted cash balances		
Unrestricted cash balances	14 235	43 061
Restricted cash balances		
Advance payment (deposit) from customer	-	7 726
Employee tax withholding accounts	686	387
Total restricted cash balances	689	8 113
Total cash and cash equivalents	14 924	51 174

14. Inventories

Financial Reporting Principles

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses and the estimated cost to complete the inventory. The cost of inventories is based on the weighted average cost.

Judgments and Estimates

The assessment of obsolete and slow-moving inventory in order to determine inventory write-downs is subject to management judgment. The selling price in the market must be estimated, and there is a risk that the actual selling price may turn out to be different than the amount estimated by management.

USD thousand	2019	2018
Raw materials and equipment for sale	3 636	361
Raw materials work in progress	708	12
Battery stock	516	1 271
Total inventories	4 860	1 644

15. Trade receivables and contract assets

Financial Reporting Principles

Trade and other receivables are recognized at the initial invoiced amount, less any impairment losses. The invoiced amount is approximately equal to the value derived if the amortized cost method would have been used.

Impairment of accounts receivable and contract assets (financial asset at amortized cost)

Impairment losses are measured at lifetime expected credit losses in accordance with IFRS 9.

The Group's impairment model for accounts receivable, contract assets and other current assets is a simplified approach based on lifetime expected credit losses (ECL). Impairment is based on an estimate of the probability of default for the financial assets reflecting an unbiased amount determined by evaluating a range of possible outcomes; the time value of money and reasonable available information related to past events, current conditions and forecasts of future economic conditions.

The Group uses an impairment model with the following characteristics:

The receivables are organized in portfolios based on the credit risk of the customers. The primary portfolio is the receivables where invoicing is done to customers with a high credit rating, typical large listed or state-owned oil companies. This portfolio has a low risk of default and therefore no impairment loss is initially recognized based on the expectation of all of the accounts being paid. Further, an individual assessment is performed on specific customer receivables, typically if a customer is in known financial distress or has declared bankruptcy.

USD thousand	2019	2018
Trade receivables	949	12 265
Contract assets	-	-
Trade receivables and contract assets	949	12 265

USD thousand	31 December 2019 Carrying amount	31 December 2019 Loss allowance	31 December 2018 Carrying. am.	31 December 2018 Loss allow.
Not overdue	15	-	-	-
Past due 0-30 days	155	-	12 260	-
Past due 31-120 days	779	-	5	-
Total	949	-	12 265	-

Credit risk on the customer receivables is evaluated as very low. At year-end 31 December 2019 no loss allowance has been recognized.

16. Other current assets

USD thousand	2019	2018
Prepayments	1 235	2 254
Intercompany trade receivables	29 340	32 707
Other group receivables	42 164	412
Deposits	467	603
Total other current assets	73 206	35 975

17. Borrowings

Financial Reporting Principles

Borrowings is recognized initially at fair value less transaction costs. Subsequent to initial recognition, Borrowings is stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

USD thousand	2019	2018
Non-current borrowings (secured loan facility)	15 824	32 137
Non-current finance arrangement	263	14 662
Leases liabilities	1 179	-
Total non-current borrowings	17 266	46 799
Related financial liabilities classified as current portion of borrowings		
Current borrowings (secured loan facility)	16 667	22 501
Current portion lease liabilities	597	-
Total current borrowings	17 264	22 501
Total borrowings	34 530	69 300

The secured loan facility with DNB has a 3-year term payable in 6 instalments of USD 8.3 million. The interest terms are LIBOR + margin of 4.5 percent calculated every quarter. The costs of establishing the DNB loan facility amount to USD 1.2 million. This arrangement cost reduces the loan amount at origination and is amortized over the 3- year term of the loan facility.

As of 31 December 2018, the Company also had a loan to GIEK and Innovation Norway (reflected in non-current and current portion above) that was fully repaid in January 2019.

The covenant requirements as of 31 December 2019 for the secured loan facility:

- Leverage: Net Debt/Annual EBITDA - below 1
- Minimum liquidity: Cash and Cash Equivalents - above USD 15 million
- Minimum equity ratio: Total Equity/Total Assets - above 50 percent

Magseis Fairfield is in compliance with all loan covenants as of 31 December 2019.

The required equity ratio for the loan facility was in May 2019 was reduced to 50 percent for all quarters in 2019, from an original covenant requirement of 60 percent. The 50 percent equity ratio covenant has now been extended through 2020.

Cash with book value of USD 14.9 million (51.2m), fixed assets with book value of USD 58.0 million (USD 78.0 million), trade receivables with book value of USD 0.9 million (USD 12.3 million) and inventory with book value of USD 4.9 million (USD 1.6 million) are pledged as security for the loan facility with DNB.

The following security has been provided to DNB Bank ASA, which secures both the loan agreement and any guarantee facility provided by DNB Bank ASA:

Magseis Fairfield ASA:

- Guarantee of USD 90 million plus interest and expenses
- Pledge over the shares in Fairfield Industries International Limited
- Pledge over the shares in Magseis FF AS
- Pledge over the shares in Magseis Operations AS
- Assignment over any monetary claims under the Fairfield share purchase agreement.

- Floating charges over operating assets, inventory and trade receivables
- Pledge over Norwegian bank accounts

Magseis Operations AS:

- Guarantee of USD 90 million plus interest and expenses
- Floating charges over operating assets, inventory and trade receivables
- Pledge over Norwegian bank accounts

Magseis FF AS:

- Guarantee of USD 90 million plus interest and expenses
- Pledge over the shares in Magseis FF LLC
- Floating charges over operating assets, inventory, and trade receivables
- Pledge over Norwegian bank accounts

In February 2019 the following additional security was provided to DNB Bank ASA in accordance with the terms of the loan agreement:

Fairfield Industries International Limited:

- Guarantee of USD 90 million plus interest and expenses
- Security over all assets (general debenture)

Magseis FF LLC:

- Guarantee of USD 90 million plus interest and expenses
- Security over all or substantially all assets, including patents/IP and bank accounts

18. Cash flow information

Financial Reporting Principles

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows relating to leases are presented as follows:

(a) cash payments for the principal portion of the lease liabilities as cash flows from financing activities

(b) cash payments for the interest portion consistent with presentation of interest payments chosen by the Company, and

(c) short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

Non-cash transactions from financing activities are illustrated in the reconciliation of liabilities from financing transactions below:

USD thousand	Liabilities arising from financing activities			
	Non-current liabilities	Current liabilities	Lease liabilities	Total
Liabilities 1 January 2018	13,049	3,249	-	16,298
Cash flows	47 942	-	-	47 942
Transactions without cash effect				
Acquisition of group companies	6 743	-	-	6 743
Fair value changes	(124)	-	-	(77)
Amortized cost effects	(1 559)	-	-	(1 559)
Net additions lease liabilities	-	-	-	-
Reclassification	(19 252)	19 252	-	-
Liabilities as at 31 December 2018	40 799	22 501	-	69 300
Implementation IFRS 16	-	-	2 416	2 416
Liabilities as at 1 January 2019	40 799	22 501	2 416	71 716
Cash flows	-	(22 374)	(641)	(23 015)
Transactions without cash effect				
Fair value changes	(14 399)	-	-	(14 399)
Amortized cost effects	353	-	-	353
Reclassification	(16 667)	16 667	-	-
Other changes	-	(127)	-	(127)
Liabilities as at 31 December 2019	16 087	16 667	1 775	34 530

19. Other current liabilities

Financial Reporting Principles

Trade and other payables are recognized at the original invoiced amount. The invoiced amount is considered to be approximately equal to the value derived if the amortized cost method would have been used.

A provision is a liability with uncertain timing and amount. Provisions are recognized when cash outflow is considered probable, the amount can be reliably estimated, and the obligation is a result of a past event. All provisions are presented as short-term as they are part of the operating cycle.

A contingent liability is a possible obligation that arises from past events that typically depends on a future event outside of the company's control, for example a court decision. A provision is made when it is considered as probable that a cash outflow will take place, and the obligation can be measured reliably.

Judgements and Estimates - Onerous customer contracts

The provisions for onerous contracts are estimated based on a number of assumptions and are highly judgmental in nature as they relate to total estimated losses on customer contracts upon completion.

The provision for onerous contract in south-east Asia as of 31 December 2018 of USD 7.3 million was reversed in the first quarter of 2019 upon completion of the project.

As of 31 December 2019, no onerous contracts are identified.

USD thousand	2019	2018
Accrued warranties	8 802	-
Accrued expenses	11 528	7 874
Onerous contracts - Malaysia*	-	7 343
Intercompany payables	12 321	1 993
Provisions holiday pay	6 513	3 732
Other	449	4 059
Total other current liabilities	39 614	25 000

* A provision for an onerous contract was made for an ongoing contract in Malaysia, due to operational challenges and delays. The provision of USD 7 343 consists of USD 6 976 was provided for cost of sales and USD 367 in depreciation related to the contract.

20. Financial risk management

The Company is exposed to a variety of financial risks; currency, interest rate, price, credit liquidity and capital risk. The objective of financial risk management is to manage and control financial risks exposure and thereby increase the predictability and minimise the potential adverse effects on the Company's financial performance. This also includes being able to meet the financial covenants related to the Company's borrowings. Refer to note 24 in the Group's consolidated financial statements for more details on how the various financial risks are managed.

21. Capital management

The Company's objective for its capital management is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders, while maintaining an optimal capital structure to reduce the cost of capital. This includes being able to meet the financial covenants under the Company's credit facility. Refer to note 25 in the Group's consolidated financial statements.

22. Fair value measurement

The entity's use of derivative contracts is limited and only entered into for economic hedging purposes to reduce cash flow risk and not as speculative investments. For further information on fair value measurements, please referee to note 26 in the Group consolidated financial statements.

23. Financial assets and financial liabilities

Financial Reporting Principles

Financial assets and financial liabilities held by the Company consist of trade receivables, cash and cash equivalents, trade payables, borrowings, financial lease liabilities, derivatives and contingent consideration from the earn-out agreement relating to WGP Group and the Al Shaheen project.

Financial assets (excluding derivatives)

All financial asset, excluding derivatives, meet the SPPI (solely payments of principal and interest) criteria, and are managed in a business model of Hold to collect. These financial assets are in the measurement category amortized cost. The Company measures its trade receivables and cash and cash equivalents at amortized cost. Subsequent to initial recognition these assets are measured at amortized cost using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognized in the income statement. Financial assets are classified as current assets, except for those where management has

the intention to hold the investment for over 12 month or financial assets with maturities later than 12 months after the balance sheet date. These assets are classified as non-current assets.

Financial liabilities (excluding derivatives)

The Company's financial liabilities consist of trade payables, contingent consideration, lease liabilities and borrowings. The Company initially recognizes financial liabilities at fair value net of transaction costs. Trade payables and borrowings are subsequently measured at amortized cost using the effective interest method. Transaction costs related to borrowings are amortized using the effective interest method over the maturity of the loan. Contingent consideration is subsequently measured at its fair value. Lease liabilities are measured in accordance with IFRS 16, refer to note 12.

At 31 December 2019, there are no differences between the amortized cost carrying amount and estimated fair value for any financial assets or financial liabilities measured at amortized cost. This also applies as of year-end 2018.

As a part of the consideration for the acquisition of Fairfield the Company issued 18 250 000 Warrants. Each warrant shall give the right to one new share in the Company, nominal value NOK 0.05, at a subscription price of NOK 25.425. Since the functional currency of Magseis Fairfield ASA is USD whereas the warrants are settled in NOK the IFRS definition of an equity instrument has not been met. As a result, the warrants are classified as a liability. The warrants were valued according to Black and Scholes model (BS) to market value as of December 2019 at USD 263 thousand (USD 6.7 million in 2018). The warrants are adjusted to fair value at each reporting date with a corresponding charge to income statement.

Financial assets and financial liabilities:

USD thousands	Measured at amortised cost (2019)	Measured at FVTPL (2019)	Measured at amortised cost (2018)	Measured at FVTPL (2018)
Financial assets				
Cash and cash equivalents	14 924	-	51 174	-
Trade receivables	949	-	12 265	-
Total	15 873	-	63 439	-
Financial liabilities				
Borrowings	32 491	-	54 917	-
Long-term non-interest-bearing loan	4 000	-	14 662	-
Lease liabilities	1 776	-	-	-
Warrants*	-	263	-	6 743
Intercompany payables	2 321	-	1 993	-
Trade payables	2 422	-	5 720	-
Total	43 010	263	77 292	6 743

*Please see note 22 Fair value measurement.

24. Commitment

The Company has entered into contractual commitments for the acquisition of seismic equipment in 2020 amounting to USD 19.8 million as of 31 December 2019, all due within one year.

25. Share-based payments

Financial Reporting Principles

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of the shares that will eventually vest, adjusted for the effect of non-market based vesting conditions.

For cash-settled share-based payments, a liability is recognized for outstanding remuneration and measured at fair value. Until settlement of the liability, the fair value of the liability is reassessed at each balance sheet date and settlement date and any changes in fair value are recognized through profit or loss.

The grant date for fair value of all share-based payments plan was calculated using the Black-Scholes-Merton option pricing model. Expected volatility is estimated by consider historic average share price volatility of comparable listed entities.

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

Overview of outstanding options:

Prices in USD	Number of instruments 2019	Weighted average strike price 2019	Number of instruments 2018	Weighted average strike price 2018
Outstanding at 1 January	525 000	16.42	1 120 000	16.59
Forfeited during the period	-	-	(378 000)	14.88
Exercised during the period	-	-	-	-
Expired during the period	(157 000)	21.24	(217 000)	22.62
Granted during the period	-	-	-	-
Outstanding at 31 December	350 000	41.26	525 000	15.37
Exercisable 31 December	300 000	14.03	300 200	16.42

No share options were granted to the employees in 2018 and 2019. The share option program was replaced with a Right Share Unit (RSU)/Performance Share Unit program in the Annual General meeting 2018,

Overview of outstanding RSUs & PSUs:

Prices in USD	Number of RSU's 2019	Average contractual life RSU's	Number of PSU's 2019	Average contractual life PSU's
Outstanding at 1 January	3 410 532	-	186 250	-
Released during the period	(119 958)	-	(66 253)	-
Granted during the period	-	-	-	-
Oustanding at 31 December	**3 530 490**	**2.91**	**119 997**	**1.50**

26. Management remuneration

See note 31 Management Remuneration in the Group's consolidated financial statements for details of remuneration to the Board of Directors and the Group Management team.

27. IFRS issued but not yet effective

Please refer to note 32 in the Group's consolidated financial statements.

28. Events occurring after the reporting date

On 13 February 2020, the Company completed a private placement with gross proceeds of NOK 277.4 million or approximately USD 30 million. Tranche 1 of the placement, NOK 125.6 million, has been received and is registered. Tranche 2 is pending approval of Extraordinary General Meeting (EGM) on 6 March 2020. Subject to approval in EGM, the current loan agreement has been refinanced and will be converted to a Revolving Credit Facility (RCF) of USD 30 million with new covenants. See note 21 Borrowings for further details.

Appendix - 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.

Non-GAAP financial measures reflect adjustments based on the following items:

Profit measures

Gross profit, 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 is calculated as Revenue and Other income less Cost of sales.

Gross Margin is calculated as Gross Profit divided by Revenue and Other income

EBITDA is a measure of earnings before deducting Net Finance Income/(Expenses), Taxes, Depreciation, Amortization and Impairment.

EBITDA excluding special items (underlying EBITDA) is a measure of earnings before deducting interest expense, taxes, depreciation, amortization and special items. **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.

EBIT is a measure of earnings before deducting interest expense and taxes.

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

Investing measures

Capital expenditures (CAPEX) is defined as cash investments in fixed assets with useful life more than one year or investments that increase the value and/or the useful life of the asset (sustaining CAPEX).

Financing 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, Other Current Assets, Trade Payables, Accruals, Provisions and Other Current Liabilities.

Net Interest-bearing Debt/(Net cash) Is defined as Cash less Interest-bearing Liabilities.

Equity Ratio is calculated as Total Equity divided by Total Assets.

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To the General Meeting of Magseis Fairfield ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Magseis Fairfield ASA, which comprise:

- The financial statements of the parent company Magseis Fairfield ASA (the Company), which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Magseis Fairfield ASA and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Assessment of carrying amount of equipment and intangible assets including goodwill

Key audit matter	How the matter was addressed in the audit
Property, plant and equipment and intangible assets account for USD 237 million or approximately 67 percent of the total consolidated assets as of 31 December 2019. Management performed impairment test to determine the recoverable amounts and recorded impairments of USD 106 million in 2019. Reference is made to note 15 in the consolidated financial statements. Following the acquisition of Fairfields' seismic technologies businesses in 2018 management identified certain impairment indicators such as market capitalization being lower than book equity at the time of testing, low contracted backlog and uncertainty relating to amounts and timing of new projects in combination with organisational challenges and weaker operational performance than anticipated at the date of the acquisition. In 4th quarter 2019, management initiated an internal restructuring process. Management therefore assessed the recoverable amount of the tangible and intangible assets including goodwill by determining the value in use. Estimating the value in use requires management judgement including estimates of future revenues, operating expenses including effect of planned restructuring initiatives, growth rates, useful lives and capital expenditures and determining discount rate. Due to the limited contracted backlog there is significant inherent uncertainty in forecasting future cash flows which is impacted by the overall exploration and production spending within the oil and gas industry. Management's impairment evaluation is a key audit matter due to the multiple variables and the significant management judgement involved in estimating future cash flows in the continued uncertain market conditions.	Our procedures included: • Evaluating management's assessment of identification of impairment indicators. • Assessments of management's key assumptions and underlying data by comparing them to budgets, external market information, and historical data, and analyzing sensitivities. • Testing mathematical accuracy of the impairment model. • Involving a valuation specialist in evaluating the components of the applied discount rate. • Assessing the disclosures regarding the assumptions and the recorded impairment losses of equipment and intangible assets including goodwill.

Assessment of going concern

Key audit matter	How the matter was addressed in the audit
Reference is made to note 2.4 in the consolidated financial statements and note 1 to the financial statements of the parent company. The results of the Group's and the parent's operations for 2019 showed a negative development. There is limited contracted backlog and uncertainty relating to amounts and timing of new projects in combination with a weaker operational performance than anticipated at the date of the acquisition of Fairfields' seismic technologies businesses late 2018. Management acknowledged the need to initiate an internal restructuring process to cut costs, focus on	Our procedures included: Obtaining management's cash flow projections for the 12-month period from the balance sheet date and compared the key input assumptions to underlying sources or historical information where relevant, or external sources where available. • Evaluating what forecast expenditure are committed and what could be considered discretionary.

Key audit matter	How the matter was addressed in the audit
order backlog and building a more sound capital structure. In 4th quarter 2019, management initiated an internal restructuring process, including initiating a private placement and refinancing its debt. Due to the limited contracted backlog there is significant inherent uncertainty in forecasting future cash flow which is impacted by the overall exploration and production spending within the oil and gas industry. Estimating future cash flows includes estimation of future revenues, operating expenses including effect of planned restructuring initiatives and capital expenditures. Management's going concern evaluation is a key audit matter due to the multiple variables and the significant management judgement involved in estimating future cash flows in the continued uncertain market conditions.	• Testing the arithmetic integrity of the calculations. • Considering the consistency of assumptions used in the going concern assessment with those used in the assessment of indicators of impairment. • Evaluating the assumptions in management's future business plan with reference to current market conditions, ongoing tendering activities by the group, post balance sheet events such as private placement, and any other corroborating evidence. We evaluated the adequacy of the disclosure made in the Financial Statements regarding going concern.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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

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

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

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

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with simplified application of international accounting standards according to the Norwegian Accounting Act section 3-9, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 28 February 2020
Deloitte AS

Jørn Borchgrevink
State Authorised Public Accountant (Norway)

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The signatures in this document are legally binding. The document is signed using Penneo™ secure digital signature. The identity of the signers has been recorded, and are listed below.

"By my signature I confirm all dates and content in this document."

Jørn Olav Borchgrevink
State Authorised Public Accountant (Norway)
Serial number: 9578-5999-4-949707
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