Q4 2020

report

magseis fairfield

Summary

Safe, efficient and reliable operational execution in Q4

- Strong operational performance on ongoing projects
- Zero recordable safety events (TRCF at 0.0), and no Covid-19 cases offshore
- Continuing to win new projects in a challenging market environment
- Preserved cash and ensured business continuity with a lean organization prepared for market rebound

Q4 financials

- Revenue of USD 48.4 million and gross margin of 32%
- EBITDA of USD 12.2 million and margin of 25%, excluding restructuring costs
- Reported EBITDA of USD 9.3 million including restructuring costs of USD 2.9 million
- Operating loss of USD 7.3 million and net loss after tax of USD 7.8 million
- Negative cash flow from operating activities of USD 6.1 due to changes in working capital
- Cash balance of USD 54.8 million at the end of the year

2020 financials

- Revenue of USD 193.4 million and gross margin of 32%
- EBITDA of USD 38.4 million and margin of 20%, excluding restructuring costs
- Reported EBITDA of USD 35.5 million including restructuring costs of USD 2.9 million
- Full-year SG&A costs of USD 24.9 million excluding restructuring costs
- Full-year capital expenditure of USD 13.3 million excluding multi-client investments
- Operating cash flow of USD 20.5 million

Continued increase in order backlog

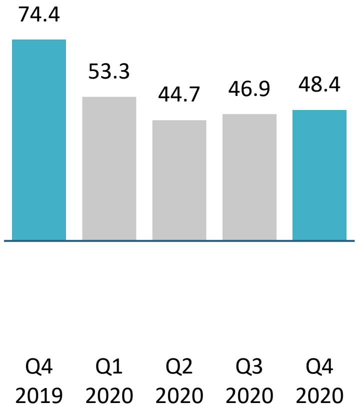
- Awarded three new contracts in Q4 2020
  - Awarded deep-water project in the Gulf of Mexico for a repeat customer with start-up in Q1 2021
  - Awarded 5+5 years contracts by Conoco Phillips for provision of Reservoir Monitoring Source Services and 4D OBN monitor surveys on the Norwegian continental shelf, starting in Q2 2021 and Q3 2021
- Total backlog of USD 198 million, up from USD 169 million at the end of the third quarter
- USD 127 million of year-end backlog for delivery in 2021
- Received three additional contract awards in Q1 with combined value of ~USD 65 million for execution in 2021. Total secured backlog for 2021 is currently ~USD 190 million.

Market and Outlook

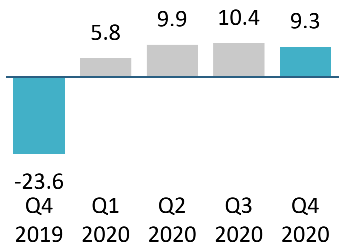
- Signs of market improvement and increased tender activity for 2021 projects in the Gulf of Mexico and North Sea, and potentially higher utilization of the node inventory than previously anticipated
- Uniquely positioned with differentiated technology to support our clients’ focus on increasing value generation from already explored fields and assets in production
- Activity in Q1 2021 is based on contracts awarded at lower margins in a weaker 2020 market and affected by lower crew utilization from a January drydocking
- Expect rebounding gross margins on the back of increased demand for the subsequent quarters

USD millions

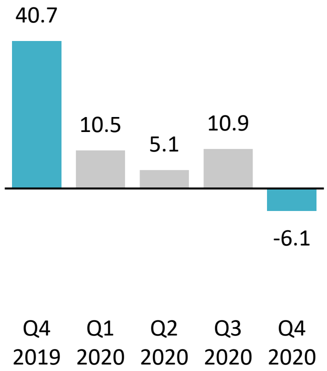
Revenues



EBITDA



Cash flow from operations



Key financials

USD million	Q4 2020	Q4 2019	FY 2020	FY 2019
As per IFRS				
Revenues	48.4	74.4	193.4	459.6
Gross profit	15.3	(5.7)	62.8	85.3
Gross margin	*32 %*	*(8 %)*	*32 %*	*19 %*
EBITDA	9.3	(23.6)	35.5	21.5
EBITDA excluding special items	12.2	(5.6)	38.4	53.6
EBITDA %	*25 %*	*(7 %)*	*20 %*	*12 %*
EBIT	(7.3)	(48.6)	(14.6)	(150.4)
Net profit/(loss) before tax	(7.8)	(46.0)	(19.7)	(151.5)
Segment reporting				
Revenues	51.3	74.4	205.7	459.6
Gross profit	15.0	(10.4)	62.6	68.5
Gross margin	*29 %*	*(14 %)*	*30 %*	*15 %*
EBITDA	7.1	(28.8)	32.4	2.7
EBITDA after multi-client amortization and excluding special items	9.6	(10.7)	28.6	34.8
EBITDA %	*19 %*	*(14 %)*	*14 %*	*8 %*
EBIT	(4.9)	(49.6)	(11.1)	(151.9)
Other key figures				
Net cash from operating activities	(6.1)	29.4	20.5	144.7
Net cash used in investing activities	3.0	(18.9)	(25.2)	(112.6)
Net cash from financing activities	(4.8)	(6.2)	4.7	(46.8)
Total assets	344.6	356.5	344.6	356.5
Equity ratio	56 %	52 %	56 %	52 %
Cash and cash equivalents	54.8	53.4	54.8	53.4
Net interest-bearing debt/(cash)	(21.9)	(20.9)	(21.9)	(20.9)
Book value multi-client library IFRS	20.9	-	20.9	-
Book value multi-client library Segment	12.8	-	12.8	-

Comment from the CEO

We have successfully navigated a very challenging market and delivered great performance for our customers through 2020. The business environment has been significantly affected by Covid-19 and lower and more volatile oil prices. The main priority of both our customers and ourselves has been to safeguard our people and operations and to protect and preserve our cash position and financial flexibility.

Despite lower year-on-year revenue we delivered another strong quarter in Q4. From an QHSE perspective, we had zero recordable safety events and continue to have no employees infected by the coronavirus on our crews. Our testing and screening program for Covid-19 continues to work well and has ensured uninterrupted operations. Overall CO_2 emissions were reduced by 14%.

We delivered 32% gross margin in the quarter and saw a sharp year-on-year improvement in gross profit despite lower revenue. We increased our order backlog by 17% to USD 198 million during the quarter, which goes to show that clients see the strong value proposition of our superior OBN technology particularly in a challenging energy market. We also delivered on our promises in the announced cost cuts, with full-year SG&A costs of USD 25 million excluding restructuring costs, and capex of USD 13 million. As we announced in our interim report for Q3 2020, we have initiated additional measures to reduce SG&A even further. This resulted in a restructuring charge of USD 2.9 million in Q4. We generated USD 21 million of operating cash flow for the full year, and the 2020 year-end cash balance is USD 55 million. This provides us a good entry in to 2021 and offers financial flexibility.

From an operational perspective, the ZXPLR1 crew performed well on a project in Mexico. The crew on the Cornerstone Multi-Client project also performed well and completed the additional area added after securing further pre-commit funding during the third quarter. Our Reservoir Monitoring and Source team successfully completed all projects in Norway, and the equipment rental contract in the Caspian Sea continued without interruptions. The ZXPLR2 crew started mobilizing for a project in the Gulf of Mexico which was awarded in Q3.

Revenue dropped by 58% for the full-year 2020. On a like-for-like basis, excluding system sales and special items, the company nevertheless saw a sharp underlying EBITDA improvement. This strong performance was delivered by major cost cuts, flawless operational execution, tight and transparent financial management and control in all parts of the business, and a relentless focus on securing the right backlog.

We delivered as One Team together with our clients in 2020. This ensured that we delivered on our key priority to protect and preserve our cash position in 2020. I stand very proudly behind the performance of the entire Magseis Fairfield team as we successfully navigated a very challenging market in 2020 and delivered great performance for our customers.

New backlog

We announced multiple contract awards in the fourth quarter. The Gulf of Mexico remains one of our core areas, where we were awarded a deep-water monitor project for a repeat customer with a start-up in Q1 2021. This means that the ZXPLR1 crew has backlog well into Q3 2021. The crew had a drydock in January 2021 before mobilizing for the newly awarded project.

The other core area is the North Sea, where we have been awarded contracts by Conoco Phillips for the provision of Reservoir Monitoring Source Services and 4D OBN monitor surveys on the Norwegian continental shelf. Both contracts have nominal five-year durations, with options to extend for up to five years.

These contract awards provide improved visibility into 2021 and a solid foundation on which to further develop our business. The five-year contracts also provide the kind of long-term revenue predictability that is important for any cyclical business.

Based on discussions with our clients and the general E&P market outlook, we are forecasting a significantly improved market from 2022 onwards. We are already starting to see the first signs of this with increased tender activity for 2021 projects in our core areas of the Gulf of Mexico and North Sea. We indeed see a scenario where we will have much higher utilization of our node inventory in 2021 than previously anticipated.

Several of our clients have stated clear ambitions in the ongoing energy transition and are reducing or stopping exploration activities. At the same time, we see the same clients continuing to commit to OBN surveys to extract maximum value of their existing assets. We are glad to see repeat business coming in from major clients in both the Gulf of Mexico and the North Sea. This confirms our continued strong position in the appraisal, development, and production value chain.

Consistent delivery of our strategy

In the current market environment, it is more important than ever to manage the elements we control. This has been my motto since I joined Magseis Fairfield, and we managed to deliver on our strategy to protect and preserve our cash position in 2020 to give us a good entry into 2021.

In 2020, we have begun to explore new market opportunities outside of oil and gas to offer our clients the solutions they require in their ongoing energy transition. Our technology and services can provide valuable solutions to, for example, offshore Carbon Capture and Storage (CCS), windfarm placements, and mineral mining. In 2020 we executed a successful test in the North Sea over a major CCS field in collaboration with one of our key clients. In the coming quarters, we will continue to work with our clients to further develop our solutions and offerings for these new markets, and we are excited about this long-term growth opportunity.

We continue to pro-actively manage SG&A costs and will maintain this at or below USD 25 million also in 2021. The leaner structure we have put in place allows us to swiftly capitalize on the opportunities we see in 2021 and beyond. Capex will be maintained at or below USD 15 million also in 2021, excluding potential investments in Multi-Client and excluding potential new major contract awards which may require additional equipment.

The new contract awards and our strong backlog provides a solid base on which to grow our business. The proactive measures executed over the past 15 months set us up in the best possible way to secure the opportunities we see in 2021 and take full benefit from a market recovery. The key to success for Magseis Fairfield in 2021 is to use our position as an OBS market leader to fully benefit from the market opportunities, while preserving our financial strength and retain a capital structure for long term growth. I am confident about the future and how our continued technology differentiation, our asset light model and our people will deliver success and value to our shareholders.

Carel Hooijkaas
CEO Magseis Fairfield

Financial review

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

Revenue

Revenue for the fourth quarter 2020 was USD 48.4 million, which was slightly above the USD 46.9 million reported for the third quarter 2020 but significantly below the USD 74.4 million reported for the fourth quarter 2019.

The year-on-year decline mainly reflects the significantly lower activity in the seismic acquisition market in 2020 compared to 2019. Also note that the Cornerstone multi-client (MC) project, which was completed in Q4 2020, is not recognized in the P&L. Magseis Fairfield will only recognize revenues from external sale of the multi-client survey data when all data has been fully acquired and processed, estimated to be completed during Q4 2021. Received prefunding is recognized as deferred revenue until completion date. Magseis Fairfield capitalize its share of investments including cost for vessels, crew, data processing, and depreciation.

The order backlog increased to USD 198 million at the end of 2020, which was an increase of 17% from USD 169 million at the end of Q3 2020 and 20% above the order backlog at the beginning of the year. Of the total backlog, USD 127 million is scheduled for delivery in 2021.

In January and February 2021, the company has been awarded contracts with a combined value of approximately USD 65 million, all of which is for delivery in 2021.

For the full year 2020, revenue amounted to USD 193.4 million, compared to USD 459.6 million in 2019. The 2019 figures included approximately USD 110 million in one-off sales of MASS I nodes, with the remainder of the revenue decline attributable to the lower activity level in the market.

Operational costs

Cost of sales amounted to USD 33.1 million in the fourth quarter of 2020, compared to USD 30.7 million in the third quarter 2020.

The gross profit thus amounted to USD 15.3 million, compared to USD 16.2 million in the third quarter, with the gross margin declining slightly to 32% from 35% in the previous quarter.

In the fourth quarter last year the company reported significantly higher cost of sales of USD 80.1 million and reported a negative gross profit of USD 5.7 million. Parts of the year-on-year improvement relates to strengthened project margins, although the main explanations have been rightsizing of capacity and significantly more structured cost control and better executed operations.

Note that changes in gross margin from quarter-to-quarter is also affected by the share of long-term (more than a year) vessel leases, which according to the IFRS 16 accounting standard is a right-of-use asset with cost to be reflected as depreciation and not cost of sales.

For the full year 2020, gross profit amounted to USD 62.8 million with a gross margin of 32%. This compares to gross profit of USD 85.3 million and a gross margin of 19% in 2019. The gross profit decline is explained by lower contribution from node sales, mainly reflecting high sales of MASS I nodes in 2019. Gross profit contribution from other business activities increased from 2019 to 2020 through improved cost control and project execution.

Selling, general and administrative expenses (SG&A) and R&D costs amounted to USD 6.0 million, compared to USD 5.8 million in the previous quarter. Note that SG&A for the fourth quarter includes restructuring cost of USD 2.4 million related to onerous leases and severance pay/retention costs. The measures implemented in the fourth quarter are expected to generate meaningful annual cost savings.

In the fourth quarter 2019 the company reported SG&A costs of USD 17.9 million, including special item costs of USD 7.4 million.

For the full year 2020, SG&A costs amounted to USD 27.3 million, including the above-mentioned restructuring costs of USD 2.4 million in the final quarter of the year. Net of restructuring costs the SG&A was USD 24.9 million. The company earlier this year stated an ambitious target to reduce SG&A costs to USD 25 million in 2020, which corresponded with a decline of approximately 60% from USD 63.8 million in 2019.

The company expects to maintain a cost level at or below USD 25 million for 2021, supported by the effects of the cost measures implemented in 2020.

Depreciation, amortization and impairment

Depreciation and amortization amounted to USD 14.6 million in the fourth quarter 2020 (14.0). This was an increase from USD 6.7 million in the previous quarter, when the low depreciation reflected recalculation of cost allocation related to capitalization of long-term vessel lease (IFRS 16) related to the multi-client project.

The Income Statement for the fourth quarter was also charged with an impairment of USD 1.9 million (11.0), reflecting mainly impairment of long-term office leases where the company seeks to sublease excess office space.

For the full year 2020, depreciation and amortization amounted to USD 48.1 million (65.6).

Results

EBITDA

Reported EBITDA was USD 9.3 million in the fourth quarter 2020, including restructuring costs of USD 2.9 million. This compares to USD 10.4 million in the previous quarter.

In the fourth quarter 2019 the company reported an EBITDA-loss of USD 23.6 million, including special cost items of USD 18.0 million.

The positive development over the past year reflects the turnaround of the company following the reorganization and restructuring in late 2019 and further cost alignments again as Covid-19 struck in Q1 2020. In addition, strong operational execution despite logistical challenges due to Covid-19 contributed to the positive development.

For the full year 2020 the company reports an EBITDA of USD 35.5 million, up from USD 21.5 million for 2019.

Operating result (EBIT)

The company reports an operating loss of USD 7.3 million for the fourth quarter 2020, including restructuring costs of USD 2.9 million and impairment charges of USD 1.9 million. This compares with an operating profit of USD 3.7 million in the previous quarter.

In the fourth quarter 2019 the company reported an operating loss of USD 48.6 million.

For the full year 2020 the company reports an operating loss of USD 14.6 million, compared to an operating loss of USD 150.4 million in 2019. Results in 2019 were impacted by significant asset impairments and other special cost items.

Net financial items

Net financial items were negative USD 0.6 million in the fourth quarter. This compares to a positive USD 8.4 million in the fourth quarter last year, which reflected reversal of a contingent liability of USD 8 million.

For the full year 2020, net financial items were negative USD 3.2 million, compared to positive USD 7.0 million in 2019. The net financial items in 2019 were significantly impacted by positive effects from revaluation of warrants of USD 6.5 million, and reversal of a previously recognised contingent liability of USD 8 million.

Net profit/ loss

Net loss before tax was USD 7.9 million and net loss after tax USD 7.8 million in the fourth quarter 2020. This compares to net losses of USD 40.2 million and USD 46.0 million, respectively, in the fourth quarter 2019.

For the full year 2020 net loss before tax was USD 17.8 million and net loss after tax USD 19.7 million. This compares to losses of USD 143.4 million and USD 151.5 million, respectively, in 2019.

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

Balance Sheet

Total assets for the Group were USD 344.6 million at the end of the fourth quarter 2020, compared to USD 356.5 million at the end of 2019.

Property, plant, and equipment (PPE) amounted to USD 150.1 million, down from USD 172.1 million at the end of 2019.

The company completed the survey on a multi-client project during the fourth quarter, and the multi-client library was recognised as a non-current asset of USD 20.9 million at the end of year.

Intangible assets stood at USD 57.7 million at the end of the fourth quarter 2020, down from USD 65.4 million at the end of 2019. There is no goodwill on the balance sheet.

Total non-current assets amounted to USD 228.7 million, compared to USD 237.5 million at the end of 2019.

Inventories decreased to USD 7.7 million from USD 18.9 million at the end of 2019, mainly reflecting a node sale in the first half 2020. Trade receivables increased to USD 38.1 million from USD 24.4 million at the end of 2019. Other current assets decreased to USD 15.3 million from USD 22.3 million at the end of 2019.

Cash and cash equivalents amounted to USD 54.8 million at the end of 2020, compared to USD 53.4 million at year-end 2019.

Total current assets amounted to USD 115.9 million at the end of the year, compared to USD 119.0 million at the end of 2019.

During the year, the company has performed impairment tests considering shifts in market fundamentals due to Covid-19 and lower and more volatile oil price scenarios, with the conclusion that no impairments have been required.

The Group's equity amounted to USD 192.5 million at the end of 2020, up from USD 184.6 million at the end of 2019. Equity change in the year was positively impacted by a private placement completed in the first quarter. The equity ratio increased to 56% from 52% at the end of 2019.

Non-current liabilities amounted to USD 44.5 million at the end of 2020, compared to USD 30.8 million at the end of 2019. The change mainly reflects the refinancing completed in the first quarter 2020.

The non-current liabilities comprised interest-bearing liabilities of USD 30.6 million (15.8), lease liabilities of USD 8.8 million (10.7), and non-interest-bearing liabilities of USD 5.1 million (4.3).

Current liabilities amounted to USD 107.6 million at the end of the fourth quarter, compared to USD 141.1 million at the end of 2019.

Trade payables decreased to USD 17.2 million from USD 29.0 million at the end of 2019.

The current portion of interest-bearing liabilities was reduced to USD 2.3 million following refinancing in the first quarter and a down-payment of USD 3.3 million in the second quarter. The current portion of obligations under finance leases was USD 19.4 million, compared to USD 16.2 million at the end of 2019.

Current tax payable was USD 5.5 million compared to USD 7.9 million at the end of 2019. Other current liabilities decreased to USD 63.3 million from USD 71.4 million. This comprised project accruals, restructuring accruals, warranty accruals, deferred revenue, and other operational accruals.

Cash Flow and Investments

Cash outflow from operating activities was USD 6.1 million in the fourth quarter 2020 (inflow 29.4). For the year, the Group had operating cash inflow of USD 20.5 million (inflow 144.7)

Operating cash outflow in the quarter reflects negative net working capital movements of USD 14.5 million, which more than offset cash earnings. Note that operating cash flow for 2019 was significantly impacted by the large one-off sales of MASS I nodes.

Cash inflow from investing activities amounted to USD 3.0 million in the fourth quarter (outflow 18.9), reflecting timing of received cost sharing payments from multi-client partner. For the full year, cash outflow from investing activities was USD 25.2 million (outflow 112.6). Investments in the multi-client library was USD 12.0 for the full year. Net of received prefunding (deferred revenue in balance sheet), the project was cash neutral in 2020.

As described in previous interim reports the company has cut back significantly on capital expenditure in 2020 and exceeded its target to reduce capital expenditure excluding multi-client investments to USD 15 million. The company is currently planning to maintain capital expenditure at or below this level also in 2021, although increased demand and potential new contract awards could trigger additional equipment investments.

Cash flow from financing activities was an outflow of USD 4.8 million in the fourth quarter (6.2) and inflow of USD 4.7 million for the full year (-46.8). The cash outflow in the quarter mainly reflects payments of lease liabilities and paid interest, whereas the cash inflow for the full year reflects the private placement and refinancing in the first quarter of the year.

The company's net cash position was USD 21.9 million at the end of 2020, compared to USD 29.0 million at the end of the third quarter and USD 20.9 million at the end of 2019.

Funding and liquidity

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

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

Further cost measures were announced in April 2020 as a response to a weaker market environment, and included furloughs, headcount reductions, and other cost and capex reductions.

At the end of 2020, Magseis Fairfield held USD 54.8 million in cash and cash equivalents. Given the established lower level of SG&A costs and capital expenditure, it is the Board of Directors' view that this provides sufficient liquidity for the current activity level. The Board and management are of the opinion that the going concern assumption is appropriate and the accounts are prepared under this assumption.

Operations

Safety and welfare the main priority

Magseis Fairfield's primary concern during the Covid-19 pandemic remains the safety and welfare of its employees, their families, and their local communities. During the fourth quarter, the company's Covid-19 task force continued to monitor the pandemic and apply learnings and regulatory changes from the different independent regimes to the company's Risk Management Plan.

Robust Covid-19 Protocols

Magseis Fairfield maintained Covid-19 free offshore operations in the fourth quarter, while completing three Reservoir Monitoring and Source projects and an OBN project in the North Sea, transitioning the deep-water crew to a new project in Mexico, and starting a second deep-water crew in the Gulf of Mexico.

The company follows established protocols including strict quarantine and testing regimes, which continued to prove effective and ensured operational continuity throughout the quarter.

Changes in guidelines from the Centre for Disease Control provided an opportunity to shorten quarantine periods by between 4 and 7 days without adding any risk to the crews. This provided some cost relief associated with the quarantine periods.

With an overall increase in Covid-19 outbreaks globally, office personnel in all locations including Norway, the US and the UK continued to work remotely during the fourth quarter. Location-specific plans were put in place to monitor office use for critical tasks and ensure number limitations, proper social distancing, and strict hygiene practices for those who needed to work from the offices.

QHSE Management System

Implementation of the integrated QHSE Management System continued throughout the fourth quarter. An external auditor conducted a gap analysis in preparation for ISO 9001:2015 certification in 2021, with the results demonstrating zero non-conformances.

The enterprise risk management review conducted by the Management Team and QHSE department was presented to the Board of Directors in December, with focus on ensuring necessary controls and identification and implementation of mitigating actions for the company's highest risks.

The Management System provides the necessary framework and underpinnings for safe and successful operations and development of the 'One Team' culture supporting the asset light operating model.

Exposure hours and TRCF

The company redefined exposure hours for offshore crew during the fourth quarter. In effect, offshore crew exposure hours are now calculated based on 12 hours exposure per day versus the previous 24 hour per day exposure basis. This fully aligns with International Association of Geophysical Contractors (IAGC) and International Association of Oil and Gas Producers (IOGP) reporting protocols and allows proper benchmarking against industry performance statistics.

Accordingly, Magseis Fairfield registered 414,028 exposure hours during the fourth quarter 2020, a decrease of 10% from the previous quarter due to fewer FTEs. The company recorded zero industry recordable events, and two first aid cases. Total Recordable Case Frequency (TRCF) for the quarter was therefore zero, reducing the 12-month rolling average and full-year 2020 TRCF to 1.09.

Environmental footprint

Magseis Fairfield began measuring its operational carbon footprint in 2020. During the fourth quarter there was a 31% decrease in average daily fuel consumption across the fleet, due in part to fewer operational days compared to the third quarter. This reduced total CO_2 by 14% to 60.9 thousand mT., NOx by 20% to 19.2 thousand kg., and SOx by 37% to 853.3 kg. for the quarter.

Social health campaign

The company rolled out a mental health awareness program in the fourth quarter, providing awareness training and support materials for the organization, in response to the increased stress and impacts associated with the pandemic and the furloughs during the general industry downturn.

Employees and contractors

As per 31 December 2020, the Group had a total of 370 FTEs, with 334 employees and 36 contractors. This compares to 421 FTEs at the end of the third quarter 2020, and 622 FTEs on 31 December 2019.

Operations in the quarter

Operations continued seamlessly from the previous quarter with no major interruptions. In the fourth quarter Magseis Fairfield worked on nine revenue generating projects, including seismic acquisition, multi-client, node rentals and sales support.

The ZXPLR 1 crew continued proprietary operations in the deep-water Gulf of Mexico throughout the quarter. The crew completed a deep-water project that started in June. Upon completion the crew transited and successfully executed the first deep water OBN project in Mexico. The project was safely and timely completed early in 2021. The crew has secured backlog in the GoM which will begin immediately after a maintenance period with drydocking of one of the vessels.

The ZXPLR 2 crew began work on a deep-water Gulf of Mexico project for a repeat customer, which carries on into 2021.

Also, in the GoM, maintenance and readiness work on the low-frequency source continued in preparation for a 2021 project scheduled for H1 of 2021.

In the North Sea the Z700 node-on-a-rope crew completed work on the Cornerstone multi-client project in the UK sector. A record number of 1,650 square kilometres of full-fold data was acquired in one season, raising the bar for future large OBN acquisition projects.

The data is currently being processed with fast-track data available in Q2 2021 and final processed deliverables available in Q4 2021. The crew has been warm stacked in preparation for the spring season, with the personnel moving to other survey operations.

All three Reservoir Monitoring and Source (RMS) crews completed work on the Norwegian sector of the North Sea during the quarter and derigged for maintenance over the winter months. All three RMS crews are scheduled to go back to work in the Spring season of 2021.

In rental support, the Z700 campaign in the Caspian Sea continued operations throughout the fourth quarter and is currently scheduled to complete in the first quarter of 2021.

Technology

The Technology organization completed its restructuring to form a single global technology team. The team includes governance and technical domains that are based in Oslo, Norway, Houston, Texas, and in Warminster, UK. The project teams are now formed from a resource pool that is agnostic to a legacy technology or geographic location, with a structure that is scalable to ensure it can meet project demands.

Magseis Fairfield continues to progress with the transition to a fully contract manufacturing model and is on-track to complete this transition by the end of H1 2021. This move complements the plan to improve node utilization by using remote maintenance and repair facilities which are set up closer to the operating locations. These facilities minimize the need to return nodes to manufacturing locations for maintenance and light repair activities. In addition, the company is progressing with supplier rationalization plans, as it shifts more of the manufacturing and repair activities to key suppliers to reduce costs and capex, in addition to the supplier management burden on the organization.

Seabed patent dispute

Magseis Fairfield continues to assert patent infringement claims against Seabed Geosolutions and remains confident in its litigation position. The company intends to press forward with its lawsuit and demands for monetary damages and a permanent injunction in 2021.

The lawsuit was brought in the U.S. District Court for the Southern District of Texas and alleges that Seabed infringes four Magseis Fairfield U.S. Patents (Nos. RE45,268 ('268), 9,829,589 ('589), 8,228,761 ('761), and 8,879,362 ('362)). The Court has presently stayed the suit pending final resolution of three Inter Partes Review petitions challenging patent validity which Seabed filed with the U.S. Patent and Trademark Office, including appeals thereof. These appeals are expected to be resolved in 2021, after which Magseis Fairfield will seek to lift the litigation stay and timely resume litigation in district court.

Outlook

The business outlook is positively impacted by rising oil prices on the back of recent OPEC+ policy changes, the ongoing Covid-19 vaccine rollout, and economic stimulus actions, which may contribute to an oil demand recovery throughout 2021. Magseis Fairfield is starting to see the first signs of a market improvement with increased tender activity for 2021 projects in the company's core areas of the Gulf of Mexico and North Sea, and sees scenarios for much higher utilization of the node inventory than previously anticipated.

This provides reasons for cautious optimism, although the company acknowledges the risk and uncertainties regarding the market development. Magseis Fairfield therefore continues to focus on issues under the company's control, and continues to develop a strong and agile organization that can respond to different market conditions by providing differentiated technical solutions to our clients. New technology will drive down the cost of acquiring OBN data and is key to growing the addressable market significantly. Magseis Fairfield's differentiated technology position and strategy gives the company a clear market advantage that is not available to others who offer commoditized solutions.

Several of our clients have stated clear ambitions in the ongoing energy transition and are reducing or stopping exploration activities. The global offshore exploration capex is expected to stay below the 2019 level over the next five years. At the same time, we see the same clients continuing to commit to OBN surveys to extract maximum value from their existing assets, and therefore remain major clients for Magseis Fairfield. This confirms our continued strong position in the appraisal, development and production value chain. Industry analysts expect annual capex spend to increase by double digits for appraisal and development projects and by single digits for production projects in 2021-2025. Magseis Fairfield continues to be uniquely positioned to offer OBN solutions in these growth markets.

To fully benefit from the market opportunities, Magseis Fairfield needs to use its market position to fully benefit from the market opportunities, while preserving its financial strength and retain a capital structure for long term growth.

In Q1 2021, the financial performance will be impacted by a vessel drydock in January before the mobilization of the ZXPLR1 crew for a newly awarded project in the Gulf of Mexico. Also, the projects we are executing in Q1 were awarded in a weaker 2020 market at lower gross margin levels. We expect gross margins in the subsequent quarters in 2021 to recover on the back of the increased demand and activity.

Magseis Fairfield has begun to explore new market opportunities outside of oil and gas to offer its clients the solutions they require in their ongoing energy transition. The company's technology and services can provide valuable solutions to, for example, offshore Carbon Capture and Storage (CCS), windfarm placements, and mineral mining. The company will continue to work with its clients to establish the offering and solutions for these new markets in the coming quarters. Although the current oil and gas offering is expected to constitute the vast majority of the business in the foreseeable future, the company views the ongoing energy transition as a long-term growth opportunity.

Magseis Fairfield will further develop its leading market position in core areas, and utilize its asset light business model, key differentiated technology and experienced people to position itself to capture the promising market opportunities the company sees in 2021 and beyond.

Responsibility statement

We confirm, to the best of our knowledge, that the condensed consolidated interim financial statements for the period 1 January to 31 December 2020 have been prepared in accordance with current applicable accounting standards and IAS 34 Interim Financial Reporting and gives a true and fair view of the assets, liabilities, financial position and results of the Group. We also confirm, to the best of our knowledge that the condensed consolidated interim financial statements present a fair view of the development and performance of the business during the period, and together with the 2019 Annual Report and 2020 First Half Report a description of the principal risks and uncertainties facing the Group.

Board of Directors and CEO of Magseis Fairfield ASA,

Lysaker, 15 February 2021

Sign.

Wenche Kjølås
Chair of the Board of Directors

Jan Gateman

Anthony Dowd

Luis Araujo

Angela Durkin

Jonathan Cudmore

Janie Garcia

Carel Hooijkaas
CEO

Condensed consolidated statement of comprehensive income

USD thousands	Note	*Quarter ended* Q4 2020 (unaudited)	Q4 2019 (unaudited)	*Year ended* Full year 2020 (unaudited)	Full Year 2019 (audited)
Revenues and other income					
Revenues and other income	3	48 446	74 394	193 391	459 625
Operating expenses					
Cost of sales		(33 140)	(80 116)	(130 616)	(374 308)
General and administrative costs		(6 037)	(17 889)	(27 317)	(63 812)
Depreciation	5,6	(12 460)	(12 141)	(39 406)	(56 686)
Amortization	7	(2 181)	(1 877)	(8 719)	(8 960)
Impairment	13	(1 940)	(11 014)	(1 940)	(106 245)
Total operating expenses		(55 758)	(123 036)	(207 998)	(610 011)
Operating profit/(loss)		(7 312)	(48 642)	(14 607)	(150 386)
Finance income and costs					
Finance income		2 904	8 367	6 647	14 394
Finance costs		(3 460)	69	(9 833)	(7 373)
Net finance income/(costs)	4	(556)	8 436	(3 185)	7 021
Net profit/(loss) before tax		(7 868)	(40 205)	(17 793)	(143 365)
Income tax expense	14	60	(5 759)	(1 857)	(8 176)
Net profit/(loss) and total comprehensive income		(7 808)	(45 964)	(19 650)	(151 541)
Earnings per share					
Basic (USD)		(0.03)	(0.25)	(0.08)	(0.82)
Diluted (USD)		(0.03)	(0.25)	(0.08)	(0.82)

Condensed consolidated statement of financial position

USD thousands	Note	31-Dec 2020 (unaudited)	31-Dec 2019 (audited)
Non-current assets			
Property, Plant and Equipment	5	150 075	172 091
Multi-client library	7	20 906	-
Other intangible assets	7	57 689	65 406
Total non-current assets		228 669	237 496
Current assets			
Cash and cash equivalents		54 829	53 432
Trade receivables		38 141	24 353
Inventories		7 711	18 928
Other current assets	10	15 253	22 310
Total current assets		115 933	119 021
Total assets		344 602	356 518
Equity			
Share capital	8	1 578	1 167
Share premium	8	407 662	382 148
Other equity		(216 767)	(198 721)
Total shareholders' equity		192 473	184 594
Non-current liabilities			
Interest bearing liabilities	9	30 624	15 824
Lease liabilities	6	8 784	10 707
Non-interest-bearing liabilities		5 118	4 263
Total non-current liabilities		44 526	30 794
Current liabilities			
Trade payables		17 179	29 003
Current tax payable	14	5 455	7 895
Current portion of interest-bearing liabilities	9	2 293	16 667
Current portion of lease liabilities	6	19 361	16 195
Other current liabilities	10	63 315	71 369
Total current liabilities		107 603	141 129
Total liabilities		152 129	171 923
Total equity and liabilities		344 602	356 518

Condensed consolidated statement of changes in equity

For the year ended 31 December 2020

USD thousands	Share capital	Share premium reserve	Share based payments reserve	Other equity	Total
Balance at 1 January 2020	1 167	382 148	5 784	(204 505)	184 594
Share issuance tranche 1	199	13 301	-	-	13 500
Expenses related to tranche 1	-	(683)	-	-	(683)
Share issuance tranche 2	213	14 249	-	-	14 462
Expenses related to tranche 2	-	(1 354)	-	-	(1 354)
Share based payments	-	-	1 712	-	1 712
Other changes	-	-	-	(107)	(107)
Profit/(Loss) for the period	-	-	-	(19 650)	(19 650)
Balance at 31 December 2020	1 578	407 662	7 496	(224 262)	192 472

For the year ended 31 December 2019

USD thousands	Share capital	Share premium reserve	Share based payments reserve	Other equity	Total
Balance at 1 January 2019	1 166	382 152	3 244	(52 988)	333 574
Share issuance	1	(4)	-	-	(3)
Share based payments	-	-	2 540	-	2 540
Other changes	-	-	-	24	24
Profit/(Loss) for the period	-	-	-	(151 541)	(151 541)
Balance at 31 December 2019	1 167	382 148	5 784	(204 505)	184 594

Condensed consolidated statement of cash flow

USD thousands	Note	*Quarter ended* Q4 2020 (unaudited)	Q4 2019 (unaudited)	*Year ended* Full year 2020 (unaudited)	Full Year 2019 (audited)
Cash flows from operating activities					
Profit / (loss) before tax		(7 868)	(40 206)	(17 793)	(143 364)
Income tax paid	14	(1 130)	(1 107)	(2 803)	(4 332)
Depreciation, amortization and impairment	5,6,7,13	16 581	25 033	50 066	171 892
Share-based payments expense		257	634	1 712	2 540
Finance expense	4	3 460	(69)	9 833	7 373
Finance income	4	(2 904)	(8 367)	(6 647)	(14 394)
Cost of sales of nodes		-	(1 264)	-	29 058
Other non-cash effects		-	-	-	-
(Increase)/decrease in current assets		(3 021)	51 533	17 116	91 961
Increase/(decrease) in current liabilities		(11 425)	3 257	(31 001)	4 007
Net cash from operating activities		(6 050)	29 443	20 481	144 740
Cash flows from investing activities					
Interest received	4	22	156	99	735
Investment in multi-client library	7	3 375	-	(12 026)	-
Investment in other intangibles	7	(39)	-	(1 001)	-
Acquisition of equipment	5	(345)	(19 089)	(12 304)	(91 204)
Investment in subsidiaries		-	-	-	(22 170)
Net cash used in investing activities		3 013	(18 933)	(25 232)	(112 639)
Cash flows from financing activities					
Down payments of interest-bearing liabilities	9	-	-	(3 333)	(22 374)
Net proceeds from new loan	9	-	-	3 568	-
Payment of finance lease liabilities	6	(4 062)	(5 154)	(17 731)	(18 775)
Net proceeds from issue of share capital	8	-	-	25 513	(2)
Interest paid	4	(735)	(1 064)	(3 326)	(5 629)
Net cash from financing activities		(4 797)	(6 218)	4 691	(46 780)
Net change in cash and cash equivalents		(7 834)	4 292	(60)	(14 678)
Currency effects on cash		865	-	1 457	-
Cash and cash equivalents at period start		61 798	49 140	53 432	68 110
Cash and cash equivalents at period end*		54 829	53 432	54 829	53 432

**Restricted cash as of 31 December 2020 is USD 1.3*

Notes to the condensed consolidated Interim financial statements

1. Reporting entity

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

2. Basis of preparation

2.1 Statement of compliance

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

2.2 Significant accounting judgements, estimates and assumptions

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

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

2.3 Accounting principles

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

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

2.4 Other

The interim financial statements have not been subject to audit.

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

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

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

3. Revenue and segment information

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

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

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

The below table reconciles internal (segment) and external (IFRS) reporting.

Q4 2020

	Quarter ended 31-Dec-20			*Quarter ended 31-Dec-19*		
USD thousands	Segment	Adj.	As reported	Segment	Adj.	As reported
Acquisition	36 902	-	36 902	62 539	-	62 539
Systems	5 487	-	5 487	6 954	-	6 954
Reservoir Monitoring/Source	6 057	-	6 057	4 901	-	4 901
Multi-client prefunding	2 888	(2 888)	-	-	-	-
Multi-client aftersales	-	-	-	-	-	-
Total revenues	51 334	(2 888)	48 446	74 394	-	74 394
Cost of sales	(36 332)	3 192[1]	(33 140)	(84 777)	4 661[1]	(80 116)
SG&A and R&D costs	(7 888)	1 851[2]	(6 037)	(18 380)	492[2]	(17 888)
EBITDA	7 114	2 155	9 270	(28 763)	5 153	(23 610)
Multi-client amortization	(1 906)	1 906	-	-	-	-
EBITDA after multi-client amortization	5 209	4 061	9 270	(28 763)	5 153	(23 610)
Depreciation and amortization	(9 487)	(5 154)[3]	(14 641)	(9 827)	(4 191)[3]	(14 018)
Impairments	(627)	(1 313)[3]	(1 940)	-	-	(11 014)
EBIT	(4 905)	(2 406)	(7 312)	(38 590)	962	(48 642)

[1] Vessel lease payments

[2] Office lease payments

[3] Depreciation and impairment of right of use assets (IFRS 16)

FY 2020 and 2019

USD thousands	*Year ended 31-Dec-20* Segment	Adj.	As reported	*Year ended 31-Dec-19* Segment	Adj.	As reported
Acquisition	131 531	-	131 531	289 507	-	289 507
Systems	43 328	-	43 328	137 466	-	137 466
Reservoir Monitoring/Source	18 532	-	18 532	30 477	-	30 477
Multi-client prefunding	12 353	(12 353)	-	-	-	-
Multi-client aftersales	-	-	-	2 175	-	2 175
Total revenues	205 744	(12 353)	193 391	459 625	-	459 625
Cost of sales	(143 172)	12 556[1]	(130 616)	(391 115)	16 807[1]	(374 308)
SG&A and R&D costs	(30 175)	2 858[2]	(27 317)	(65 780)	1 968[2]	(63 812)
EBITDA	32 397	3 061	35 458	2 730	18 775	21 505
Multi-client amortization	(8 153)	8 153	-		-	-
EBITDA after multi-client amortization	24 244	11 214	35 458	2 730	18 775	21 505
Depreciation and amortization	(34 678)	(13 448)[3]	(48 125)	(48 421)	(17 225)[3]	(65 646)
Impairments	(627)	(1 313)[3]	(1 940)	(106 245)	-	(106 245)
EBIT	(11 061)	(3 547)	(14 607)	(151 936)	1 550	(150 385)

4. Finance income and expenses

USD thousands	*Quarter ended* Q4 2020	Q4 2019	*Year ended* Full Year 2020	Full Year 2019
Finance income				
Foreign exchange gains	3 277	462	6 681	1 160
Revaluation of warrants	(397)	1 722	(135)	6 482
Interest income	24	157	101	728
Other financial items	-	6 026	-	6 024
Sum finance income	2 904	8 367	6 647	14 394
Finance costs				
Foreign exchange losses	(2 597)	(291)	(6 198)	(1 257)
Interest expense loan facility	(426)	(870)	(2 046)	(2 177)
Interest expense leases	(325)	(734)	(1 547)	(2 381)
Capitalized lease interests (MCL)	(17)	-	203	-
Other financial items	(95)	1 964	(245)	(1 558)
Sum finance costs	(3 460)	69	(9 833)	(7 373)
Net finance income/(costs)	(556)	8 436	(3 186)	7 021

5. Property, Plant & Equipment (PPE)

FY 2020

USD thousands	Seismic equipment	Asset under construction	Office machines etc.	Right-of-use assets (IFRS 16)	Total
Accumulated Investment					
Balance at 1 January 2020	176 093	56 443	5 672	43 392	281 600
Additions	1 304	10 950	50	18 974	31 278
Disposals/retirement	(25 433)	-	(423)	-	(25 856)
Reclass- asset under construction	31 638	(31 707)	69	-	-
Other	715	(294)	(127)	112	407
Balance at 31 December 2020	184 317	35 392	5 241	62 478	287 429
Accumulated depreciation and impairment					
Balance at 1 January 2020	(85 205)	(1 806)	(4 559)	(17 939)	(109 509)
Depreciation for the period	(31 483)	-	(436)	(18 504)	(50 422)
Accumulated depreciation disposed/retired	24 112	-	406	-	24 518
Other	(1 806)	1 806	-	-	
Impairment	(627)	-	-	(1 313)	(1 940)
Balance at 31 December 2020	(95 008)	-	(4 589)	(37 756)	(137 354)
Net carrying amounts					
Balance at 1 January 2020	90 888	54 637	1 112	25 453	172 092
Balance at 31 December 2020	89 308	35 392	652	24 722	150 075

Reconciliation of depreciation to income statement

USD thousands	FY 2020
Depreciation of property plant and equipment	50 422
Depreciation capitalized to multi-client library	(11 016)
Depreciation in income statement	39 406

Capital commitments

USD thousands	Total
Capital commitments as of 31 December 2019	19 800
Capital commitments as of 31 December 2020	5 000

FY 2019

USD thousands	Seismic equipment	Asset under construction	Office machines etc.	Right-of-use assets (IFRS 16)	Total
Accumulated Investment					
Balance at 1 January 2019	153 647	38 092	1 898	-	193 637
PPA adjustments	7 400	5 291	-	-	12 691
Revised balance at 1 January 2019	161 047	43 383	1 898	-	206 328
IFRS 16 implementation	-	-	-	19 937	19 937
Additions	33 309	57 390	407	23 455	114 562
Disposals/retirement	(42 243)	(19 135)	(68)	-	(61 446)
Reclass - asset under construction	23 980	(28 804)	4 824	-	-
Other changes	-	3 610	(1 389)	-	2 221
Balance at 31 December 2019	176 093	56 443	5 672	43 392	281 600
Accumulated depreciation and impairment					
Balance at 1 January 2019	(44 338)	-	(701)	-	(45 039)
Depreciation for the period	(48 791)	-	(669)	(17 225)	(66 685)
Accumulated depreciation disposed/retired	23 184	-	9	-	23 193
Impairment	(15 261)	(1 806)	(3 197)	(714)	(20 978)
Balance at 31 December 2019	(85 205)	(1 806)	(4 559)	(17 939)	(109 509)
Net carrying amounts					
Balance at 1 January 2019	116 709	43 383	1 197	-	161 289
Balance at 31 December 2019	90 887	54 637	1 113	25 453	172 091

6. Leases

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.

Impairment charges of USD 1.3 million in fourth quarter, reflecting impairment of long-term office leases where the company seeks to sublease excess office space.

FY 2020

Right-of-use assets

USD thousands	Vessels	Offices and warehouses	Total
Carrying value			
Balance 1 January 2020	14 797	10 656	25 453
Additions	18 974	-	18 974
Depreciation	(16 339)	(2 165)	(18 504)
Impairment	-	(1 313)	(1 313)
Other adjustments	-	113	113
Balance 31 December 2020	17 432	7 291	24 722

Lease Liabilities

USD thousands	Non-current	Current	Total
Carrying value			
Balance 1 January 2020	10 707	16 195	26 902
Additions	-	18 974	18 974
Lease payments	-	(17 731)	(17 731)
Reclassification	(1 923)	1 923	-
Other adjustments	-	-	-
Balance 31 December 2020	8 784	19 361	28 145

FY 2019

Right-of-use assets

USD thousands	Vessels	Offices and warehouses	Total
Carrying value			
Balance 1 January 2019	-	-	-
Implementation of IFRS 16	11 870	8 067	19 937
Additions	18 636	4 722	23 358
Depreciation	(15 806)	(1 419)	(17 225)
Impairment	-	(714)	(714)
Other adjustments	97	-	97
Balance 31 December 2019	14 797	10 656	25 453

Lease Liabilities

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

7. Intangibles

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

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

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

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

FY 2020

USD thousands	Other intangibles	Multi-client library	Total
Accumulated investment			
Balance at 1 January 2020	81 296	-	81 296
Additions	1 001	20 906	21 907
Balance at 31 December 2020	82 297	20 906	103 203
Accumulated amortization and impairment			
Balance at 1 January 2020	(15 890)	-	(15 890)
Amortization for the period	(8 719)	-	(8 719)
Balance at 31 December 2020	(24 609)	-	(24 609)
Net carrying amounts			
Balance at 1 January 2020	65 406	-	65 406
Balance at 31 December 2020	57 689	20 906	78 594

Other intangible assets are mainly related to technology acquired through business combinations (Fairfield in 2018). The useful life of the acquired technology is 10 years. Magseis Fairfield have ongoing research and development project, and such costs are expensed as incurred until a program has completed the concept phase.

FY 2019

USD thousands	Goodwill	Other intangibles	Multi-client library	Total
Accumulated investment				
Balance at 1 January 2019	93 731	83 096	-	176 827
PPA adjustments	(12 600)	(1 800)	-	(14 400)
Balance at 31 December 2019	81 131	81 296	-	162 427
Accumulated amortization and impairment				
Balance at 1 January 2019	-	(2 816)	-	(2 816)
Amortization for the period	-	(8 961)	-	(8 961)
Impairment for the period	(81 131)	(4 113)	-	(85 243)
Balance at 31 December 2019	(81 131)	(15 890)	-	(97 020)
Net carrying amounts				
Balance at 1 January 2019	93 731	80 280	-	174 011
Balance at 31 December 2019	-	65 406	-	65 406

8. Share Capital and Reserves

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

Share capital issued

USD thousands	Number of shares	Share price at NOK	Share capital USD '000	Share premium reserve USD '000
Ordinary shares - Issued and fully paid				
Balance at 1 January 2019	184 982 362		1 166	382 152
Private placement 14 January 2019	2 019	17.0	-	3
Private placement 24 April 2019	186 211	0.1	1	(6)
Balance at 31 December 2019	185 170 592		1 167	382 148
Private placement 17 February 2020	37 034 118	3.4	199	12 618
Private placement 17 March 2020	44 565 882	3.4	213	12 895
Balance at 31 December 2020	266 770 592		1 578	407 662

9. Interest bearing liabilities

USD thousands	31 Dec 2020	31 Dec 2019
Nominal value bank facility	30 000	33 334
Prepaid fees bank facility	(675)	(843)
Nominal value other loans	3 592	-
Total	32 917	32 491
Repayment profile at balance sheet date:		
2020	-	16 667
2021	2 548	16 667
2022	31 044	-
Total	33 592	33 334

The financial covenants as from 1 April 2020:

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

Magseis Fairfield is in compliance with all financial covenants as of 31 December 2020.

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

10. Other current assets and liabilities

Other current assets

USD thousands	31 Dec 2020	31 Dec 2019
Prepayments	5 324	5 269
Other receivables	2 397	1 432
Contract assets (unbilled revenue and mobilization costs)	7 532	15 074
Deposits	-	535
Total	15 253	22 310

Other current liabilities

USD thousands	31 Dec 2020	31 Dec 2019
Accrued warranties	5 477	10 001
Accrued expenses	37 456	56 160
Contract liabilities (deferred revenue)	13 790	-
Other	6 592	5 208
Total	63 315	71 369

11. Onerous lease contracts

In fourth quarter excess office space in US, UK, Norway and Sweden was made available for sublease. As a result, a total onerous lease liability of USD 0.8 million was recognized, in addition to USD 1.3 million recognized as impairment of right of use assets (IFRS 16) related to the long-term lease agreements.

12. Related parties

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:

USD thousands		Transaction value		Accounts payable	
Name	Note	2020	2019	31 Dec-20	31-Dec-19
Westcon Group (shareholder)	(I)	14 125	34 095	-	3 547
Fairfield Geotechnologies (shareholder)	(II)	969	4 254	-	104
J B Gateman (Geo Innova AS) (shareholder)	(III)	144	270	-	59

(I) Time charter agreements for the vessels Artemis Athene, Artemis Angler and Artemis Arctic. Westcon Group also delivers Marine Management services as a part of the time charters.

(II) In 2020, the only transactions are related to office sublease. In 2019, transactions were related to sublease, consultancy and other operating services. The office lease agreement ends in October 2030 and the total lease liability is USD 3.5 million as of 31 December 2020.

(III) J B Gateman was engaged as an independent consultant.

13. Impairment of non-current assets

Impairment of assets

Intangible assets that have an indefinite useful life is 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

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

During 2020, several impairment indicators have been present; the outbreak and spreading of the coronavirus have led to a reduction in the economic activity and a rapid and significant reduction in oil demand and generated an oversupply situation with significantly lower and more volatile oil prices. The impact on the E&P industry has been profound and. Magseis Fairfield's clients have cut their capex and cancelled or postponed their investment plans to preserve cash. Consequently, management has initiated impairment tests for all quarters during the year.

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

Key assumptions when assessing the recoverable amounts as per Q4 were:

- Cash flow projections are based on flat revenue growth assumptions in 2021 and a market rebound in 2022 bringing revenue and margins closer to 2019 levels. We have applied a growth rate of 6-8% for the period 2023-2024, with an estimation of terminal value in subsequent periods. Hence, market uncertainty and recovery are reflected in the projections
- We have analysed the historic and future OBS market and assessed our market share, which has been used as a basis for the revenue scenario applied in the cash flow projections
- Terminal value reflects long term steady state revenue and margin levels based on a combination of historic levels and judgements applied
- Lower cost base following reorganization is reflected in the model
- Capex levels are aligned with revenue assumptions
- Weighted average cost of capital applied in the model is 8.6%

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

Sensitivities

The impairment test is sensitive to changes in key assumptions, including changes in discount rate, growth rates, gross margin and EBITDA assumptions, market share assumptions, capex levels etc. Sensitivity tests have been done on key assumptions indicating long-term revenue reduction of 13%, long-term EBITDA margin reduction of 5% and discount rate increase of 11% may occur before any impairment is required.

In addition to the overall impairment test, specific reviews of assets are undertaken. This review resulted in impairment charges of USD 0.6 million in Q4-20. In addition, impairments of right of use assets was recognised, refer to note 6 and 10.

14. Tax

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

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

15. Subsequent events

On 1 February, Magseis Fairfield was awarded a 4D Ocean Bottom Node monitor survey in the Norwegian North Sea for a major E&P company. The survey is scheduled to commence late in the first quarter 2021 and last for approximately 1 month.

On 10 February, Magseis Fairfield was awarded a contract for a deep-water Ocean Bottom Node baseline survey (3D) offshore Angola for a major international energy company. The project is expected to start in Q2-2021 and run for approximately three months.

On 12 February, Magseis Fairfield was awarded a contract for a deep-water Ocean Bottom Node monitor survey (4D) in the Gulf of Mexico for a repeat customer. The project is expected to start in Q2-2021 and run for approximately two months.

16. Alternative Performance Measures (APMs)

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

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

Profit measures

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

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

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. Special items include restructuring costs.

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

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

EBIT is a measure of earnings (operating profit/loss) before deducting interest expense and taxes. See note 3 for further details.

Segment EBIT is a measure of earnings using segment revenue before deducting interest expense and taxes. See note 3 for further details.

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

Financing and investment measures

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

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

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

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

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

Book value multi-client library segment reflects total multi-client investment less amortization using industry practice prior to implementation of IFRS 15. The amortization is aligned with revenue recognition using percentage of completion and is based upon the ratio of aggregate capitalized survey costs to total forecasted sales.

Magseis Fairfield ASA

Strandveien 50
N-1366 Lysaker NORWAY

Phone: +47 23 36 80 20