Q4 2021

report

magseis fairfield

Summary

Q4 financials

- Revenue of USD 72.2 million and gross margin of 30%
- EBITDA of USD 12.4 million and margin of 17%
- Operating loss of USD 12.9 million and net loss after tax of USD 15.1 million
- Operating cash flow of USD 12.0 million
- Cash holding of USD 29.7 million, with RCF fully drawn at USD 30 million

2021 financials

- Revenue of USD 258.1 million and gross margin of 28%
- EBITDA of USD 47 million and margin of 18%
- Full year SG&A of USD 24.5 million and capital expenditure of USD 12 million, both in line with guidance

Continued increase in order backlog

- Order backlog of USD 293 million at the end of 2021, of which ~USD 190 million for delivery in H1 2022
- Awarded four new contracts in Q4 2021 across all technologies
- Contract value of new orders of USD 112 million in fourth quarter, secured at increasing margins
- Additional two contracts awarded year to date, with combined contract value of USD 33 million

Seasonal lower operational activity in Q4

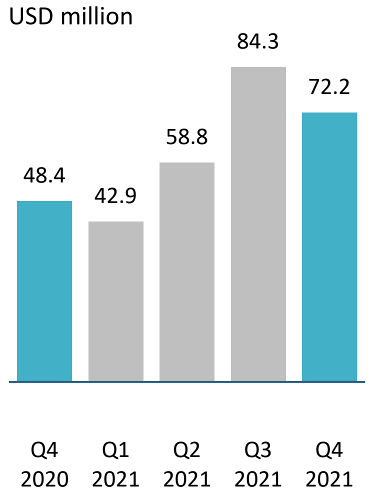
- Lower seasonal activity, Gulf of Mexico project impacted by environmental and weather conditions
- Completed data processing on Cornerstone MC project phase 1. No late sales in Q4.
- Successfully started the project in India
- 12 months rolling Total Recordable Case Frequency (TRCF) at 2.37

Market and Outlook

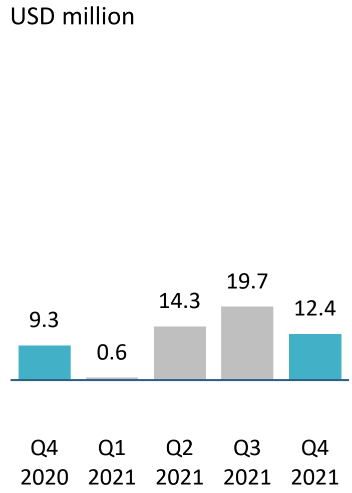
- Strong recovery for greenfield development projects expected from 2022, with average growth of 14% between 2022-2025
- Based on awarded contracts and forecasted tender activity the company predict 25% overall market growth in 2022
- About 65% of visible projects have been awarded, with key opportunities remaining in Europe, Americas, and Asia
- Renewables strategy being executed as planned, with opportunities being pursued in USA, Europe, and Asia

USD millions

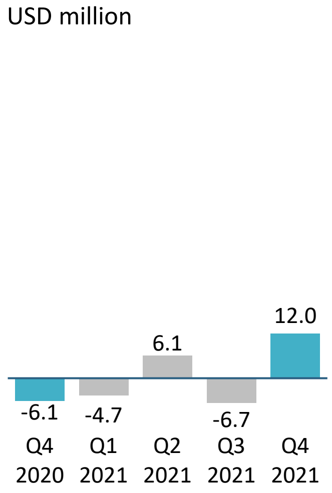
Revenues



EBITDA



Cash flow from operations



Key financials

USD million	Q4 2021	Q4 2020	Full Year 2021	Full Year 2020
As per IFRS				
Revenues	72.2	48.4	258.1	193.4
Gross profit	21.6	15.3	71.5	62.8
Gross margin	*30%*	*32%*	*28%*	*32%*
EBITDA	12.4	9.3	47.0	35.5
%	*17%*	*19%*	*18%*	*18%*
EBITDA excluding special items	10.3	12.2	41.3	38.4
%	*14%*	*25%*	*16%*	*20%*
EBIT	(12.9)	(7.3)	(25.1)	(14.6)
Net profit/(loss)	(15.1)	(7.8)	(32.3)	(19.7)
Segment reporting				
Revenues	61.8	51.3	248.6	205.7
Gross profit	6.3	15.0	44.1	62.6
Gross margin	*10%*	*29%*	*18%*	*30%*
EBITDA	(3.2)	7.1	18.9	32.4
%	*-5%*	*14%*	*8%*	*16%*
EBITDA excluding special items	(3.2)	9.6	15.4	36.8
%	*-5%*	*19%*	*6%*	*18%*
EBIT	(18.9)	(4.9)	(28.8)	(11.1)
Other key figures				
Net cash from operating activities	12.0	(6.1)	6.8	20.5
Net cash used in investing activities	(2.1)	3.0	(12.9)	(25.2)
Net cash from financing activities	(5.9)	(4.8)	(18.7)	4.7
Total assets	305.0	344.6	305.0	344.6
Equity ratio	53%	56%	53%	56%
Cash and cash equivalents	29.7	54.8	29.7	54.8
Net interest-bearing debt/(cash)	1.7	(21.9)	1.7	(21.9)
Book value multi-client library IFRS	22.5	20.9	22.5	20.9
Book value multi-client library Segment	20.7	12.8	20.7	12.8
Backlog at end of reporting period	293.0	198.0	293.0	198.0

Comment from the CEO

Magseis Fairfield achieved revenue of USD 72 million in the fourth quarter, with a gross margin of 30%, EBITDA margin of 17%, and operating cash flow of USD 12 million. We finished 2021 with total revenue of USD 258 million and a backlog of USD 293 million, which was an increase of 48% during the year. USD 215 million is for delivery in 2022, of which approximately USD 190 million in the first half of the year. New contracts are being secured at increasing margins. This positions the company for a good start to 2022.

Based on awarded contracts and forecasted tender activity we predict 25% overall market growth in 2022. Customer interests continue to extend beyond the core areas in the Gulf of Mexico and North Sea to include more tenders for work in Latin America and Asia.

From an HSE perspective the 12-month rolling average for Total Recordable Case Frequency (TRCF) was 2.37 at the end of Q4 2021. This is an increase compared to 1.09 in 2020 and was caused by an increase in medical treatment cases from two in 2020 to four in 2021. We continue to stress the importance of situational awareness and contractor management to reverse this trend. On a very positive note, we have had no Covid-19 cases offshore on our crews. This shows the benefits of our strict and effective Covid-19 protocols, including quarantine, testing regimes and vaccinations. This ensured operational continuity throughout the year.

In 2021 we installed software on all our vessels to accurately measure our fuel consumption and provide us with a baseline to reduce emissions. While the number of operating days increased 77% in 2021, fuel consumption only increased 35%. Average CO_2 emissions per operating day declined by 36% year on year. The primary reason for this is that our vessels were working continuously in the same geographical area, which reduced transits.

Operations

Overall, we were engaged in 9 different projects during the quarter. Our ZXPLR1 crew continued working on a project in the Gulf of Mexico, which was adversely impacted by environmental and weather conditions. The project is now scheduled to complete in Q1 2022 as the environmental conditions have persisted in the first quarter.

The Z700 crew completed a project in the North Sea and successfully mobilized for a project in India. The crew is continuing to operate well on this project.

Our Reservoir Monitoring and Source teams completed their 2021 projects in Q4 2021 before demobilizing and are doing the necessary equipment maintenance before re-mobilizing for the projects in Q2 2022.

The MASS crew successfully completed a node-drop project for a multi-client survey in the North Sea.

In system sales we made a spare parts sale to support a client with their ongoing operations on a project in the Middle East.

Processing of the data from the main survey area of the Cornerstone multi-client project was completed in Q4 2021. This has moved the project into the late-sales phase. While no late-sales were secured in Q4 2021, we continue to pursue several leads for sales in 2022. The remainder of the Cornerstone multi-client data is on schedule for delivery in H1 2022.

New backlog

The order backlog increased to USD 293 million at the end of 2021, providing us with good visibility to focus on project execution. New backlog has been secured at higher gross margins as the market continues to tighten.

In our core area of the North Sea, we received a conditional award for a one-month OBN survey using Z700 technology, starting in the second quarter. The survey will commence following the completion of the project in India.

In our other core area of the Gulf of Mexico, we were awarded a five-month project, with options to extend. This survey will be executed by our ZXPLR2 crew, with startup expected in the first quarter. Our ZXPLR1 crew was awarded a two-month project, with an optional project for an additional two months, also with startup expected in the first quarter.

In the Mediterranean, we were awarded a three-month survey for our MASS crew, with startup expected in the second quarter.

After the end of the year, the company has received further orders increasing the order backlog to USD 326 million at the time of writing.

Alliance growth model

We continued to grow our OBN acquisition business in 2021 and complemented this by expanding into new areas and new markets through alliance partnerships. In terms of business model, we delivered on this strategy through our 50/50 partnership with CGG on the Cornerstone Multi-Client survey. In terms of geographies, we won work in India together with a local partner and successfully started this project on schedule in Q4. In terms of technology, we signed a hybrid-alliance with PGS to offer both node and streamer acquisition at the same time. This provides us with additional access to the towed streamer 4D market and provides a potential solution to shorten the exploration cycle for our customers by delivering better data, earlier. Last, but not least, we started to deliver on our renewables strategy by being selected to the Greensand consortium for a CCS project in Denmark.

We expect to continue to use the alliance growth model in 2022 to further extend and expand our business offering and overall market position.

Building a renewables business

The Project Greensand Phase 2 Consortium was awarded funding by EUDP in the fourth quarter 2021. We will start the engineering phase of this project in the first quarter of 2022 and expect project execution to take place in the fourth quarter of 2022. As part of our strategy, we continue to do fundamental research together with the Center of Geophysical Forecasting. We are in discussions to execute a test in 2022 to validate the research using our node-drop technology.

With regards to the pilot projects, we completed a windfarm acquisition pilot in 2021 and are reviewing our options to acquire a carbon capture and storage (CCS) pilot project in 2022.

We continue to focus on renewables opportunities across both North America, Europe and Asia.

Consistent delivery of our strategy

As oil and gas demand is returning to pre-COVID levels, the effects of the pandemic and under-investment are evident in the energy market. The higher energy price outlook in the near- and medium-term incentivize oil and gas companies to extract more from already explored assets and further strengthens the case for OBN data acquisition technology. The macro trends clearly continue to support our belief in significant market growth for OBN services in 2022 and beyond.

I am confident about the future and that our continued technology leadership, our asset light model and our people will deliver success and value to our shareholders.

Carel Hooijkaas
CEO Magseis Fairfield

Financial review

Revenue

Revenue for the fourth quarter 2021 was USD 72.2 million, up from USD 48.4 million reported for the fourth quarter 2020 and down from USD 84.3 million in the third quarter 2021.

The decrease from last quarter reflects lower seasonal utilization. During the fourth quarter, Magseis Fairfield worked on 9 revenue generating projects in the Gulf of Mexico, the North Sea and India.

Revenue for the year amounted to USD 258.1 million, compared to USD 193.4 million last year.

Phase 1 of the Cornerstone multi-client project was finalized towards the end of 2021 year, with the remainder scheduled for delivery in H1 2022. Received prefunding of USD 8.3 million was recognized as revenue in the fourth quarter.

The order backlog increased to USD 293 million at the end of the year 2021, which was an increase of 48% from USD 198 million at the end of the fourth quarter 2020, and above the USD 247 million reported at the end of the third quarter 2021. Approximately USD 190 million of the backlog is scheduled for delivery in the first half 2022.

Operational costs

Cost of sales amounted to USD 50.6 million in the fourth quarter of 2021, compared to USD 33.1 million in the fourth quarter 2020 and USD 59.2 million in the third quarter 2021.

The gross profit thus increased to USD 21.6 million from USD 15.3 million in the fourth quarter last year and decreased from USD 25.1 million in the third quarter 2021. The gross margin of 30% compares to 32% in the fourth quarter last year, 30% in the third quarter, 29% in the second quarter and 19% in the first quarter this year.

As communicated in the interim report for the first quarter 2021, Magseis Fairfield expected gross margins in the remaining quarters of the year to improve from the levels seen in the first quarter, with increased capacity utilization on higher-margin contracts.

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 2021, gross profit amounted to USD 71.5 million and the gross margin to 28%, compared to USD 62.8 million and 32%, respectively, in 2020.

Selling, general and administrative expenses (SG&A) and R&D costs amounted to USD 9.2 million in the fourth quarter. This compares with SG&A costs of USD 6.0 million in the same quarter last year and USD 5.5 million in the third quarter 2021. The increase is mainly due to bonus accruals of USD 1.8 million.

For the full year SG&A costs amounted to USD 24.5 million, compared to USD 27.3 million in 2020.

SG&A for the year was in line with the guided cost level of around USD 25 million.

Depreciation, amortization and impairment

Depreciation and amortization amounted to USD 18.8 million in the fourth quarter, compared to USD 14.6 million in the fourth quarter last year and up from USD 15.6 million from the previous quarter. The change from previous quarter is mainly related to USD 5.5 million of multi-client amortization.

An impairment of USD 6.5 million was recognized in fourth quarter related to older equipment and R&D projects with limited or no expected future use and value.

For the full year depreciation, amortization and impairment amounted to USD 72.1 million, compared to USD 50.1 million the year before. The increase reflects that the company last year acquired a multi-client survey where all costs related to that survey were capitalized, including depreciation.

Results

EBITDA

EBITDA was USD 12.4 million in the fourth quarter 2021, compared to USD 9.3 million in the fourth quarter last year and USD 19.7 million in the third quarter this year.

The fourth quarter EBITDA was impacted by seasonally lower utilization and a Gulf of Mexico project negatively impacted by bad weather.

For the full year EBITDA amounted to USD 47.0 million, compared to USD 35.5 million in 2020.

Operating result (EBIT)

The company reports an operating loss of USD 12.9 million in the fourth quarter, compared to a loss of USD 7.3 million in the same period last year and a profit of USD 4.0 million in the third quarter 2021.

For the full year the operating loss was USD 25.1 million, compared to a loss of USD 14.6 million in 2020.

Net financial items

Net financial costs were USD 0.8 million in the fourth quarter 2021, compared to a net cost of USD 0.6 million in the same period last year and net financial costs of USD 1.3 million in the third quarter 2021.

For the full year, net financial costs amounted to USD 3.2 million, compared to net financial costs of USD 3.2 million in 2020.

Net profit/ loss

Net loss before tax was USD 13.6 million in the fourth quarter 2021, compared to a loss of USD 7.9 million in the same quarter last year and a profit of USD 2.7 million in the third quarter 2021.

For the full year, net loss before tax was USD 28.3 million, compared to a loss of USD 17.8 million in 2020.

Income tax expense was USD 1.5 million in the fourth quarter, compared to no income tax expense in the fourth quarter last year. The increase is driven by the projects in West Africa and India.

Net loss was hence USD 15.1 million, compared to a loss of USD 7.8 million in the same period last year. For the full year, the net loss was USD 32.3 million, compared to a net loss of USD 19.7 million in 2020.

Balance Sheet

Total assets for the Group were USD 305.0 million at the end of 2021 compared to USD 344.6 million at the end of 2020.

Property, plant, and equipment (PPE) reduced to USD 115.8 million from USD 150.1 million at year-end 2020.

The multi-client library is recognised as a non-current asset of USD 22.5 million up from USD 20.9 million at the end of last year. The investment in 2021 relates to data processing costs.

Other intangible assets stood at USD 49.8 million compared to USD 57.7 million at the end of 2020. The changes are mainly due to amortization and a USD 1.0 million impairment.

Total non-current assets hence declined to USD 188.2 million from USD 228.7 million at the end of 2020.

Inventories decreased to USD 6.2 million from USD 7.7 million at year-end 2020, whereas trade receivables decreased to USD 17.4 million from USD 38.1 million at the end of 2020. Other current assets increased to USD 63.5 million from USD 15.3 at the end of 2020, mainly driven by start-up of the large project in India.

Cash and cash equivalents amounted to USD 29.7 million at the end of 2021 down from USD 54.8 million at the end of 2020.

Total current assets amounted to USD 116.8 million, compared to USD 115.9 million at the end of 2020.

The Group's equity amounted to USD 161.5 million at the end of 2021, down from USD 192.5 million at the end of 2020. This mainly reflects the losses in the period. The equity ratio is 53%, compared to 56% at the end of 2020. The equity ratio covenant was permanently reduced to 40% effective from Q4 2021.

Non-current liabilities declined to USD 42.3 million from USD 44.5 million at the end of 2020. Interest-bearing liabilities was USD 29.4 million, compared to USD 30.6 million at year-end 2020, whereas lease liabilities declined to 8.3 million from USD 8.8 million and non-interest-bearing liabilities to USD 4.6 million from USD 5.1 million.

Current liabilities declined to USD 101.2 million from USD 107.6 million at the end of 2020, with trade payables increasing to USD 20.9 million from USD 17.2 million at year-end 2020. Other current liabilities declined to USD 80.3 million from USD 90.4 million at the end of 2020, with the current portion of lease liabilities at USD 16.2 million, current tax payable at USD 5.1 million, and other current liabilities at USD 57.0 million. The latter comprises project accruals, salary accruals, warranty accruals, deferred revenue, and other operational accruals. The current portion of interest-bearing liabilities is USD 2.0 million.

Cash Flow and Investments

Net cashflow from operating activities was USD 12.0 million in the fourth quarter 2021, compared to a cash outflow of USD 6.1 million in the same quarter last year and a cash outflow of USD 6.7 million in the previous quarter. The cash flow from operating activities in the fourth quarter 2021 was impacted by start-up of the large project in India where first cash inflows will start in first quarter 2022.

For the full year 2021, the net cashflow from operating activities amounted to USD 6.8 million, compared to USD 20.5 million cashflow in the same period last year.

Cash outflow from investing activities amounted to USD 2.1 million in the fourth quarter, compared to a cash inflow of USD 3.0 million in the same quarter last year, and USD 2.9 million cash outflow in the third quarter this year. The investments mainly reflect equipment acquisitions and investment in multi-client library.

For the full year 2021, the net cash outflow from investing activities was USD 12.9 million, compared to USD 25.2 million in the same period last year.

Net cashflow from financing activities was an outflow of USD 5.9 million in the fourth quarter, compared to a cash outflow of USD 4.8 million in the same quarter last year and a cash outflow of USD 5.8 million in the previous quarter.

Payment of finance lease liabilities amounted to USD 5.1 million in the fourth quarter, and interest payments amounted to USD 0.8 million.

For the full year 2021, the net cash flow from financing activities was an outflow of USD 18.7 million, compared to a cash inflow of USD 4.7 million in the same period last year. The net inflow in 2020 was due to private placement of USD 25.5 million.

Funding and liquidity

The company's cash position was USD 29.7 million at the end of the fourth quarter 2021, compared to a cash position of USD 54.8 million at the end of 2020. As described above, the cash position at the end of the year was affected by working capital requirements mainly related to the large project in India.

In July 2021, the company secured financing of expected working capital requirements through a temporary increase of its Revolving Credit Facility (RCF) from USD 30 million to USD 45 million for the remainder of 2021. This was repaid in December 2021.

In H2 2021, Magseis Fairfield reached an agreement with DNB to amend the covenant structure for the RCF. Under the new covenants, the required equity ratio has been reduced from 50% to 40%. This change allows for increased flexibility with regards to working capital requirements resulting from higher operational activity.

Legal

As described in the Annual Report 2020, the company is involved in a patent lawsuit against Seabed Geosolutions for infringement of four of the Group's U.S. patents where the company demands compensation for monetary damages.

On 11 January 2022, Magseis Fairfield announced that a mediation process between Magseis Fairfield ASA and Fairfield Industries Inc. is ongoing regarding contractual claims between the parties. The outcome of the process is highly uncertain.

Operations

Overall, Magseis Fairfield was involved in 9 different projects during the quarter, covering all technologies and business areas.

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 applied learnings and regulatory changes from the different independent regimes to the company's Risk Management Plan.

Strict Covid-19 protocols

Magseis Fairfield continues to apply and enforce COVID-19 protocols to avoid potential exposure or outbreak of the virus on the operating vessels. The stringent protocols did not impact our ability to successfully operate multiple offshore projects during the fourth quarter.

To significantly reduce the risk of a COVID-19 outbreak, Magseis Fairfield has updated its vaccination standard to include the coronavirus vaccine for all offshore teams and any staff that may visit or travel to the vessels in direct support of the offshore operations. Further, we have initiated an anonymous reporting system which will allow us to understand the percentage of shore-based team members who are vaccinated.

QHSE Management System

Magseis Fairfield's integrated QHSE Management System provides the necessary framework and underpinnings for safe and successful operations, and development of a 'One Team' culture supporting the company's asset light operating model. The annual QHSE plan includes specific efforts and actions focused on all aspects, including but not limited to:

- ISO certifications
- Development of an integration non-conformity reporting process and system
- ONE TEAM leadership skills training
- Mental health and wellness training and support
- Formal adoption of the IOGP Life Saving Rules
- Monthly "Work Smart-Work Safe" program
- Formalization of a project environmental dashboard
- Implementation of the Maress system onboard our vessels for consistent measurement of fuel consumption and carbon emissions.

Magseis Fairfield has completed the ISO certification by ABS QE. The company received ISO 9001:2015 certification for all Magseis Fairfield sites and operations and certification for ISO 14001 and 45001 for our Warminster site in the UK. Magseis Fairfield will pursue ISO 14001 and 45001 certifications for all sites and operations in 2022.

Exposure hours and TRCF

Magseis Fairfield registered 385,837 exposure hours during the fourth quarter of 2021, which was an increase of 22.7% from the previous quarter. The company had two industry recordable events (medical treatment cases), and four first aid cases in the quarter.

The 12-month rolling average for Total Recordable Case Frequency (TRCF) was 2.37 at the end of Q4 and 2021 and is the result of four recordable events (3 medical treatment cases requiring a person to take prescription medication and one medical treatment where a person required stitches).

Environmental footprint

During the fourth quarter there was a total of 11 vessels working on various projects for Magseis Fairfield, with a combined 664 vessel days recorded in operation, transit or port. The consumption of 7,272 mT marine gas oil (MGO) translates into an average YTD of 8.6 mT of fuel per vessel per day, which is a 32% decline from the 2020 average.

Total vessel emissions were 23.2k mT (CO_2), 336.5k kg of (NOx), and 5.1k kg (SOx).

Magseis Fairfield earlier this year announced an ambition to become carbon neutral by 2040, or earlier. To this end, the company continues to develop its environmental sustainability plan and roadmap, with focus areas including air quality, waste stream reduction, remote access, reuse and recycle, and clean oceans. The specific efforts and actions associated with these focus areas will be consistent with ISO 14001, 45002, 26000, and 20400, as well as UN Sustainability Goals 7 (affordable and clean energy), 8 (decent work and economic growth), 12 (responsible consumption and production), and 14 (life below water).

As part of the company's sustainability plan, all node handling vessels and source vessels operating for Magseis Fairfield have successfully implemented the Maress system fuel consumption and carbon emission measuring system. The data from this system will allow the company to further analyse and plan for efficiency improvements related to fuel consumption and emissions.

Employees and contractors

As per 31 December 2021, the Group had a total of 401 FTEs, of which 318 employees and 83 contractors. This compares to 370 FTEs on 31 December 2020, and 622 FTEs on 31 December 2019. The increase in 2021 is driven by a higher number of offshore employees and contractors due to increased activity.

Operations in the quarter

During the third quarter, Magseis Fairfield worked on 9 revenue-generating projects, while also rigging and mobilizing for projects commencing early 2022.

In the Gulf of Mexico, the ZXLPR 1 crew continued their work on a project for a multi-client provider. The project is expected to be completed in the first quarter of 2022. The crew will move directly onto a new project in the GOM for a repeat customer.

The ZXPLR 2 crew began remobilization for a project with a repeat customer in the Gulf of Mexico, which is expected to commence in the first quarter of 2022.

The Z700 crew first completed a project in October for a multi-client provider in the North Sea while mobilizing an additional node on a rope (NOAR) handling vessel. Upon completion of the project, the fleet united both node handlers and transited to India. The India project commenced on time. When the India project is completed, the crew will transit back to the North Sea for a new project.

The reservoir monitoring/source crew finalized the North Sea season in November. Following completion, all crews went into their demobilization and maintenance phases in preparation for the Spring season.

Operations also supported ongoing customer technology trials in the North Sea and global support for system rentals and sales.

Technology

Activities centered on the delivery of the Automated Back Deck project which is scheduled for delivery in Q1 2022. Assembly is nearing completion, and the project will soon move into the integration, testing, and qualification phase. With the ongoing bottlenecks in materials and electronics supply chains, there have been delays that have impacted both the progress and cost of the projects. We are continuously taking steps to mitigate any impact from this on operations.

The supply chain issues for materials and electronics components, is also impacting our node manufacturing activities. We anticipate that delays and component obsolescence will continue in the period ahead, but that there will be some relief toward the end of 2022. To mitigate the impact of the current market we are working closely with our manufacturing partners to manage lifetime buys and component substitutions.

We initiated the next phase of our modular solutions with the launch of Echova during the fall of 2021. In addition, we focused on the Z technology stack with efforts to improve mobilization and demobilization times and reduce total project costs. Introducing Mobile, Modular and Scalable (M^2S) solutions across all technology stacks will provide greater flexibility for our customers and improve node utilization globally.

Risk factors

Magseis Fairfield is exposed to a variety of risk factors, including risks related to global economic growth and demand for (and prices of) oil and gas products. These factors affect the oil and gas companies' capital spending for exploration and development expenditures such as seismic services.

The company is assessing hedging arrangements to mitigate the possible adverse effects for fuel prices on a project-by-project basis.

Magseis Fairfield operates in competitive markets, and the majority of the Group's contracts are obtained through competitive bidding processes. Rapid technological changes may affect the Group's competitive position in this market. As described in the Annual Report 2020, the company also sees financial risks related to unexpected adjustments or cancellations of orders, changes in scope, and potential failure to meet customers' contractual terms and conditions due to operational issues, vessel unavailability or component shortages, material breakdown or vessel damage, extreme weather, or hazardous conditions, etc. As a technology company, Magseis Fairfield is also dependent on its ability to attract and retain personnel with the required skill sets for mainly technology development, contract management, and project execution.

Other risk factors include legal risks related to laws and regulations in various jurisdictions, cyber criminality, and intellectual property rights. For a more detailed review of these risks and other general risk factors, please refer to the Annual Report 2020.

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. It is management's assessment that the credit risk of the company is limited.

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.

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 may 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.

At the end of the fourth quarter of 2021, the company had cash and cash equivalents of USD 29.7 million. Given the current activity level and financial forecasts, the company will have sufficient liquidity through 2022. The liquidity forecast is subject to certain risk factors, such as project execution, timely collections from customers or changes in phasing and scope of projects.

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 utilizes hedging arrangements against parts of its exposure in NOK and GBP.

The Group's expenses are primarily, in order of exposure, in USD, NOK, GBP and EUR. Changes in currency exchange rates may affect operational costs such as salaries paid in local currency.

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. Currency fluctuations of an investor's currency of reference relative to the USD may adversely affect the value of an investor's investments. The company's assessment is that the foreign exchange risk was unchanged during the third quarter of the year.

Subsequent events

On 6 January 2022, Magseis Fairfield announced the conditional award of an Ocean Bottom Node (OBN) survey from a repeat customer. Start-up is expected in Q3 2022, and the project will run for approximately two months. On 21 January, it was announced that this conditional award was converted into a signed contract.

On 21 January 2022, Magseis Fairfield announced that a customer exercised an optional project in US GoM, which is scheduled to start in Q2 2022 and run for approximately two months.

Strategy and outlook

Market fundamentals and outlook

Oil and gas demand is returning to pre-COVID levels and is proving resilient even during the most recent Omicron outbreak, and the effects of years of under-investments remain evident in the energy market.

At a macro level we see continued tightness in the market with oil and gas inventories and OPEC+ spare capacity declining. Only Saudi Arabia and US (onshore) producers have spare capacity and the ability to impact overall production levels. Indications are that both are vested in maintaining current commodity pricing to avoid demand destruction.

Energy demand is expected to continue to grow in a post-covid new normal, with air travel recovering throughout 2022 and beyond. In this macro setting, our customers generate very healthy cashflows which could drive increased offshore upstream capex spend. Given the long investment cycle from exploration to production, short- to medium-term energy supply will need to come from already explored assets. With regards to longer-term investments, many oil and gas companies still seem to find it challenging to meet required long-term return requirements given the changing global energy mix.

The need for increased oil and gas supply in the short- to medium-term is expected to translate into investments to increase recovery rates from already explored assets. According to data from Rystad Energy, this view is supported by a significant increase in project sanctioning, and the forecasted sanctioned greenfield capex is expected to increase by 14% in 2022 and by a further 40% in 2023. These projects will provide lower-carbon barrels that can be delivered quickly to the market with attractive payback on investments and will naturally include OBN projects. This forms the basis for an increasingly optimistic outlook for a market recovery for OBN services, and the company's view that the OBN market will see double-digit growth from 2022 onwards.

The 2022 market opportunities continue to grow, and the company sees customer interest extending beyond the core areas in the Gulf of Mexico and North Sea to include also Latin America, Asia and Africa. Based on awarded contracts and forecasted tender activity the company predicts 25% overall market growth in 2022. The company is submitting proposals at increasing margins as the market continues to strengthen. In this environment backlog increased 48% to USD 293 million for execution in 2022. This backlog and the tendering activity for 2022 provides a basis for optimism, although the company acknowledges the risks and uncertainties regarding future market development.

The company sees opportunities for growth in the deepwater and hybrid market. With the market continuing to strengthen the company will add an additional deepwater crew with new MASS III nodes from the first half of 2023. This requires only a moderate cash investment of approximately USD 3 million in 2023.

Delivering on our Strategy

We continued to deliver on a strategy to strengthen our core while growing into new areas and new markets through alliance partners. We are actively pursuing key alliance partners, both within acquisition technology, multi-client services, and new geographies, and both within oil and gas and renewables.

The entry into renewables is progressing as planned. Milestones in 2021 included the acquisition of a windfarm pilot project in Denmark, and the company is looking to acquire its first Carbon Capture and Storage (CCS) pilot project in 2022. The engineering for the Greensand project in Denmark is scheduled to start in the first quarter of 2022 with acquisition scheduled for the fourth quarter of 2022. The company is focusing on multiple renewables opportunities in North America, Europe, and Asia.

Magseis Fairfield is well positioned in a growth market, with an excellent team moving forward in the development of existing and new markets in partnership with our customers.

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 2021 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 2020 Annual Report a description of the principal risks and uncertainties facing the Group.

Board of Directors and CEO of Magseis Fairfield ASA,

Lysaker, 14 February 2022

Sign.

Wenche Kjølås
Chair of the Board of Directors

Anthony Dowd
Director

Roar Bekker
Director

Luis Araujo
Director

Angela Durkin
Director

Janie Garcia
Director

Carel Hooijkaas
Chief Executive Officer

Condensed consolidated statement of comprehensive income

USD thousands	Note	Q4 2021 (unaudited)	Q4 2020 (unaudited)	Full year 2021 (unaudited)	Full year 2020 (audited)
Revenues and other income					
Revenues and other income	3	72 210	48 446	258 129	193 391
Operating expenses					
Cost of sales		(50 625)	(33 140)	(186 645)	(130 616)
General and administrative costs		(9 200)	(6 037)	(24 506)	(27 317)
Depreciation	5,6	(11 130)	(12 460)	(51 507)	(39 406)
Amortization	7	(7 657)	(2 181)	(14 156)	(8 719)
Impairment	12	(6 458)	(1 940)	(6 458)	(1 940)
Total operating expenses		(85 070)	(55 758)	(283 272)	(207 998)
Operating profit/(loss)		(12 859)	(7 312)	(25 143)	(14 607)
Finance income and costs					
Finance income		428	2 904	819	6 647
Finance costs		(1 218)	(3 460)	(4 004)	(9 833)
Net finance income/(costs)	4	(791)	(556)	(3 185)	(3 185)
Net profit/(loss) before tax		(13 650)	(7 868)	(28 328)	(17 793)
Income tax expense	13	(1 450)	60	(3 926)	(1 857)
Net profit/(loss) and total comprehensive income		(15 099)	(7 808)	(32 254)	(19 650)
Earnings per share					
Basic (USD)		(0.06)	(0.03)	(0.12)	(0.08)
Diluted (USD)		(0.06)	(0.03)	(0.12)	(0.08)

Condensed consolidated statement of financial position

USD thousands	Note	31-Dec 2021 (unaudited)	31-Dec 2020 (audited)
Non-current assets			
Property, Plant and Equipment	5,6,12	115 852	150 075
Multi-client library	7,12	22 526	20 906
Other intangible assets	7,12	49 840	57 689
Total non-current assets		188 217	228 669
Current assets			
Cash and cash equivalents		29 737	54 829
Trade receivables		17 389	38 141
Inventories		6 182	7 711
Other current assets	10	63 479	15 253
Total current assets		116 787	115 933
Total assets		305 004	344 602
Equity			
Share capital	8	1 584	1 578
Share premium	8	151 021	407 662
Other equity		8 909	(216 767)
Total shareholders' equity		161 514	192 473
Non-current liabilities			
Lease liabilities	6	8 275	8 784
Interest bearing liabilities	9	29 429	30 624
Non-interest-bearing liabilities		4 609	5 118
Total non-current liabilities		42 313	44 526
Current liabilities			
Trade payables		20 901	17 179
Current tax payable	13	5 060	5 455
Current portion of interest-bearing liabilities	9	2 000	2 293
Current portion of lease liabilities	6	16 201	19 361
Other current liabilities	10	57 015	63 315
Total current liabilities		101 177	107 603
Total liabilities		143 490	152 129
Total equity and liabilities		305 004	344 602

Condensed consolidated statement of changes in equity

2021

USD thousands	Share capital	Share premium reserve	Share based payments reserve	Other equity	Total
Balance 1 January 2021	1 578	407 662	7 496	(224 262)	192 473
Share based payments	6	-	1 413	-	1 419
Other changes	-	-	-	(125)	(125)
Allocation of retained earnings	-	(256 641)	-	256 641	-
Profit/(Loss) for the period	-	-	-	(32 254)	(32 254)
Balance 31 December 2021	1 584	151 021	8 909	0	161 514

2020

USD thousands	Share capital	Share premium reserve	Share based payments reserve	Other equity	Total
Balance 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 31 December 2020	1 578	407 662	7 496	(224 262)	192 473

Condensed consolidated statement of cash flow

USD thousands	Note	Q4 2021 (unaudited)	Q4 2020 (unaudited)	Full year 2021 (unaudited)	Full year 2020 (audited)
Cash flows from operating activities					
Profit / (loss) before tax		(13 650)	(7 868)	(28 328)	(17 793)
Income tax paid	13	(1 616)	(1 130)	(4 322)	(2 803)
Depreciation, amortization and impairment	5,6,7	25 245	16 581	72 122	50 066
Share-based payments expense		361	257	1 413	1 712
Finance expense	4	1 218	3 460	4 004	9 833
Finance income	4	(428)	(2 904)	(819)	(6 647)
Other non-cash		4 100	-	500	-
(Increase)/decrease in current assets		(33)	(3 021)	(35 199)	17 116
Increase/(decrease) in current liabilities		(3 166)	(11 425)	(2 577)	(31 001)
Net cash from operating activities		12 032	(6 050)	6 794	20 481
Cash flows from investing activities					
Interest received	4	(2)	22	-	99
Investment in multi-client library	7	4 021	3 375	(881)	(12 026)
Investment in other intangibles	7	(855)	(39)	(1 538)	(1 001)
Acquisition of equipment	5	(5 260)	(345)	(10 454)	(12 304)
Net cash used in investing activities		(2 095)	3 013	(12 874)	(25 232)
Cash flows from financing activities					
Down payments of interest-bearing liabilities	9	-	-	-	(3 333)
Net proceeds from new loan	9	-	-	2 000	3 568
Payment of finance lease liabilities	6	(5 101)	(4 062)	(18 044)	(17 731)
Net proceeds from issue of share capital	8	-	-	6	25 513
Interest paid	4	(788)	(735)	(2 631)	(3 326)
Net cash from financing activities		(5 889)	(4 797)	(18 669)	4 691
Net change in cash and cash equivalents		4 048	(7 834)	(24 748)	(60)
Currency effects on cash		(477)	865	(345)	1 457
Cash and cash equivalents at period start		26 165	61 798	54 829	53 432
Cash and cash equivalents at period end		29 737	54 829	29 737	54 829

**Restricted cash as of 31 December 2021 is USD 1.1 million*

Notes to the condensed consolidated Interim financial statements

1. Reporting entity

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

2. Basis of preparation

2.1 Statement of compliance

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

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 2020.

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 2020 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 2020 Group's Annual accounts.

Some amendments to standards and interpretations are effective from 1 January 2021, but they do not have any material effect on the Group's financial statements. Certain new accounting standards and amendments to standards have been published that are not yet mandatory. The Group has chosen not to early adopt any new or amended standards in preparing these condensed consolidated interim financial statements. None of these standards are expected to have a material impact on the consolidated accounts at implementation.

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.

Q4-21 and Q4-20

	Quarter ended 31-Dec-21			*Quarter ended 31-Dec-20*		
USD thousands	Segment	Adj.	As reported	Segment	Adj.	As reported
Acquisition	47 809	-	47 809	36 902	-	36 902
Systems	9 474	-	9 474	5 487	-	5 487
Reservoir Monitoring/Source	4 129	-	4 129	6 057	-	6 057
Multi-client prefunding	(16)	8 318	8 303	2 888	(2 888)	-
Multi-client aftersales	385	-	385	-	-	-
Other revenues	-	2 112	2 112	-	-	-
Total revenues	61 780	10 430	72 210	51 334	(2 888)	48 446
Cost of sales	(55 511)	4 887[1]	(50 625)	(36 332)	3 192[1]	(33 140)
SG&A and R&D costs	(9 481)	281[2]	(9 200)	(7 888)	1 851[2]	(6 037)
EBITDA	(3 213)	15 599	12 386	7 114	2 155	9 270
Multi-client amortization	(10)	(5 469)	(5 480)	(1 906)	1 906	-
EBITDA after multi-client amortization	(3 223)	10 130	6 906	5 209	4 061	9 270
Depreciation and amortization	(9 195)	(4 113)[3]	(13 307)	(9 487)	(5 154)[3]	(14 641)
Impairments	(6 458)	-	(6 458)	(627)	(1 313)	(1 940)
EBIT	(18 876)	6 017	(12 859)	(4 905)	(2 406)	(7 312)

[1] Vessel lease payments

[2] Office lease payments

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

FY 2021 and 2020

USD thousands	Year ended 31-Dec-21 Segment	Adj.	As reported	Year ended 31-Dec-20 Segment	Adj.	As reported
Acquisition	204 742	-	204 742	131 531	-	131 531
Systems	23 746	-	23 746	43 328	-	43 328
Reservoir Monitoring/Source	18 842	-	18 842	18 532	-	18 532
Multi-client prefunding	874	7 429	8 303	12 353	(12 353)	-
Multi-client aftersales	385	-	385	-	-	-
Other revenues	-	2 112	2 112	-	-	-
Total revenues	248 588	9 541	258 129	205 744	(12 353)	193 391
Cost of sales	(204 511)	17 866[1]	(186 645)	(143 172)	12 556[1]	(130 616)
SG&A and R&D costs	(25 150)	645[2]	(24 506)	(30 175)	2 858[2]	(27 317)
EBITDA	18 927	28 052	46 979	32 397	3 061	35 458
Multi-client amortization	(577)	(4 903)	(5 480)	(8 153)	8 153	-
EBITDA after multi-client amortization	18 350	23 149	41 499	24 244	11 214	35 458
Depreciation and amortization	(40 642)	(19 541)[3]	(60 184)	(34 678)	(13 448)[3]	(48 125)
Impairments	(6 458)	-	(6 458)	(627)	(1 313)	(1 940)
EBIT	(28 750)	3 607	(25 143)	(11 061)	(3 547)	(14 607)

4. Finance income and costs

USD thousands	Q4 2021	Q4 2020	Full Year 2021	Full Year 2020
Finance income				
Foreign exchange gains	176	3 277	360	6 681
Revaluation of warrants	-	(397)	-	(135)
Interest income	3	24	4	101
Other financial items	249	-	454	-
Total finance income	428	2 904	819	6 647
Finance costs				
Foreign exchange losses	(345)	(2 597)	(542)	(6 198)
Interest expense loan facility	(584)	(426)	(1 763)	(2 046)
Interest expense leases	(295)	(325)	(1 191)	(1 547)
Revaluation of warrants	24	-	221	-
Other financial items	(18)	(95)	(728)	(245)
Capitalized lease interests (MCL)	-	(17)	-	203
Total finance costs	(1 218)	(3 459)	(4 004)	(9 833)
Net finance income/(costs)	(791)	(556)	(3 185)	(3 185)

5. Property, Plant & Equipment (PPE)

2021

USD thousands	Seismic equipment	Asset under construction	Office machines	Right-of-use assets (IFRS 16)	Total
Accumulated Investment					
Balance 1 January 2021	158 561	35 393	1 821	62 478	258 252
Additions	286	10 124	43	17 624	28 078
Disposals/retirements	(13 553)	(337)	-	-	(13 890)
Reclass - asset under construction	8 916	(8 916)	-	-	-
Reclass - intangibles	-	(1 066)	-	-	(1 066)
Inventory movements and other changes	377	3 696	(517)	(1 298)	2 259
Balance 31 December 2021	154 587	38 894	1 348	78 804	273 632
Accumulated depreciation and impairment					
Balance 1 January 2021	(69 254)	-	(1 167)	(37 756)	(108 176)
Depreciation for the period	(31 632)	-	(334)	(19 541)	(51 507)
Disposals/retirements	6 300	-	(4)	-	6 296
Impairment	(3 286)	(1 336)	-	-	(4 622)
Other movements	(139)	-	346	22	229
Balance 31 December 2021	(98 010)	(1 336)	(1 159)	(57 276)	(157 781)
Net carrying amounts					
Balance 1 January 2021	89 307	35 393	654	24 722	150 074
Balance 31 December 2021	56 577	37 558	189	21 529	115 852

Capital commitments

USD thousands	Total
Capital commitments 31 December 2020	5 000
Capital commitments 31 December 2021	4 000

2020

USD thousands	Seismic equipment	Asset under construction	Office machines	Right-of-use assets (IFRS 16)	Total
Accumulated Investment					
Balance 1 January 2020	176 093	56 444	5 672	43 392	281 600
Additions	1 304	10 950	50	18 974	31 278
Disposals/retirements	(51 189)	-	(3 844)	-	(55 033)
Reclass - asset under construction	31 638	(31 707)	69	-	-
Other changes	715	(294)	(127)	112	407
Balance 31 December 2020	158 561	35 393	1 821	62 478	258 252
Accumulated depreciation and impairment					
Balance 1 January 2020	(85 206)	(1 806)	(4 558)	(17 939)	(109 509)
Depreciation for the period	(31 483)	-	(436)	(18 504)	(50 422)
Accumulated depreciation disposed/retired	49 868	-	3 827	-	53 695
Impairment	(627)	-	-	(1 313)	(1 940)
Other movements	(1 806)	1 806	-	-	-
Balance 31 December 2020	(69 254)	-	(1 167)	(37 756)	(108 176)
Net carrying amounts					
Balance 1 January 2020	90 887	54 638	1 114	25 452	172 091
Balance 31 December 2020	89 307	35 393	654	24 722	150 075

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. As of 31 December 2021, one vessel is on long-term contract and other two on short term contracts and are recognized as right of use asset and lease liability in the table below.

2021

Right-of-use assets

USD thousands	Vessels	Offices and warehouses	Total
Carrying value			
Balance 1 January 2021	17 432	7 291	24 722
Additions	17 624	-	17 624
Depreciation	(17 940)	(1 601)	(19 541)
Other adjustments	(1 298)	21	(1 277)
Balance 31 December 2021	15 818	5 711	21 529

Lease Liabilities

USD thousands	Non-current	Current	Total
Carrying value			
Balance 1 January 2021	8 784	19 361	28 145
Additions	4 143	13 481	17 624
Lease payments	-	(18 044)	(18 044)
Reclassification	(4 652)	4 652	-
Other adjustments		(3 250)	(3 250)
Balance 31 December 2021	8 275	16 201	24 476

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 to current	(1 923)	1 923	-
Other adjustments	-	-	-
Balance 31 December 2020	8 784	19 361	28 145

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.

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.

2021

USD thousands	Other intangibles	Multi-client library	Total
Accumulated investment			
Balance 1 January 2021	82 297	20 906	103 203
Additions	1 538	7 100	8 638
Reclassification from PPE	1 066	-	1 066
Other changes	58		58
Balance 31 December 2021	84 960	28 006	112 966
Accumulated amortization and impairment			
Balance 1 January 2021	(24 608)	-	(24 608)
Amortization for the period	(8 677)	(5 480)	(14 156)
Impairment	(1 836)	-	(1 836)
Balance 31 December 2021	(35 120)	(5 480)	(40 600)
Net carrying amounts			
Balance 1 January 2020	57 689	20 906	78 595
Balance 31 December 2021	49 840	22 526	72 366

2020

USD thousands	Other intangibles	Multi-client library	Total
Accumulated investment			
Balance 1 January 2020	81 296	-	81 296
Additions	1 001	20 906	21 907
Balance 31 December 2020	82 297	20 906	103 203
Accumulated amortization and impairment			
Balance 1 January 2020	(15 889)	-	(15 889)
Amortization for the period	(8 719)	-	(8 719)
Balance 31 December 2020	(24 608)	-	(24 608)
Net carrying amounts			
Balance 1 January 2020	65 407	-	65 407
Balance 31 December 2020	57 689	20 906	78 595

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 1 January 2020	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 31 December 2020	266 770 592		1 578	407 662
RSU settlements	951 750	0.05	6	-
Allocation of retained earnings				(256 641)
Balance 31 December 2021	267 722 342		1 584	151 021

9. Interest bearing liabilities

USD thousands	31 Dec 2021	31 Dec 2020
Nominal value bank facility	30 000	30 000
Nominal value other loans	2 000	3 592
Subtotal nominal value	*32 000*	*33 592*
Prepaid fees bank facility	(571)	(675)
Total book value	31 429	32 917
Long term	*29 429*	*30 624*
Short term	*2 000*	*2 293*
Repayment profile at balance sheet date:		
2021	-	2 293
2022	2 000	31 299
2023	30 000	
Total	32 000	33 592

Financial covenants

Covenants as of 31 December 2021:

- Net interest-bearing debt (NIBD)/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 > 40 percent
- Clean Down mechanism: NIBD shall be at or below zero for 5 successive business days in each quarter
- Equipment loan to value: RCF debt / book value seismic equipment and assets under construction < 50 percent

Magseis Fairfield is in compliance with all financial covenants as of 31 December 2021.

In April 2020, the Company received U.S. loan program of USD 3.6 million which was fully forgiven in June 2021. An additional loan of USD 2 million was received in April 2021. 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 fully or partially forgiven on certain conditions.

10. Other current assets and liabilities

Other current assets

USD thousands	31 Dec 2021	31 Dec 2020
Contract assets (unbilled revenue and mobilization costs)	50 621	7 532
Prepayments	8 363	5 324
Other receivables	4 495	2 397
Total	63 479	15 253

Other current liabilities

USD thousands	31 Dec 2021	31 Dec 2020
Accrued expenses	46 847	37 456
Deferred revenue (contract liabilities)	4 893	13 790
Accrued warranties	880	5 477
Other	4 393	6 592
Total	57 015	63 315

11. 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	FY 2021	FY 2020	31 Dec 2021	31 Dec 2020
Westcon Group (shareholder)	(I)	9 960	14 125	1 228	798
Fairfield Geotechnologies (shareholder)	(II)	1 162	969	79	-
J B Gateman (Geo Innova AS) (shareholder)	(III)	88	144	-	-

(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 3.2 million as of 31 December 2021.

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

12. Impairment of non-current assets

Impairment recognized in Q4-21

An impairment of USD 6.5 million was recognized in fourth quarter related to older equipment and R&D projects with limited or no expected future use and value.

Impairment test 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 applied in the impairment test

In Q4-21, several impairment indicators were present; the outbreak and spreading of the coronavirus 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 an impairment test.

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

Key assumptions when assessing the recoverable amounts were:

- Cash flow projections are based on a continued growth into 2023 and beyond. We have applied an average growth rate of 6-8% for the period 2023-2025, with an estimation of terminal value in subsequent periods.
- We have analyzed the historic and future OBS market and assessed our market share, which has been used as a benchmark 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 11%

The test suggests no impairment required, but it must be emphasized that the model is sensitive to its assumptions, such as market growth and project margins.

Sensitivities in the impairment test

The impairment test is sensitive to changes in key assumptions, including changes in discount rate, growth rates, gross margin and EBITDA assumptions. Sensitivity analysis have been performed on key assumptions. The table below show the changes in key assumptions that may occur before any impairment is required.

Sensitivities (break-even analysis)	
Long-term revenue reduction	Δ 13%
Long-term EBITDA margin reduction	Δ 11%
Discount rate increase	Δ 52%

13. Tax

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

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

14. Subsequent events

On 6 January 2022, Magseis Fairfield announced the conditional award of an Ocean Bottom Node (OBN) survey from a repeat customer. Start-up is expected in Q3 2022, and the project will run for approximately two months. On 21 January, it was announced that this conditional award was converted into a signed contract.

On 11 January 2022, Magseis Fairfield announced that a mediation process between Magseis Fairfield ASA and Fairfield Industries Inc. is ongoing regarding contractual claims between the parties. The outcome of the process is highly uncertain.

On 21 January 2022, Magseis Fairfield announced that a customer exercised an optional project in US GoM, which is scheduled to start in Q2 2022 and run for approximately two months.

15. 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.

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