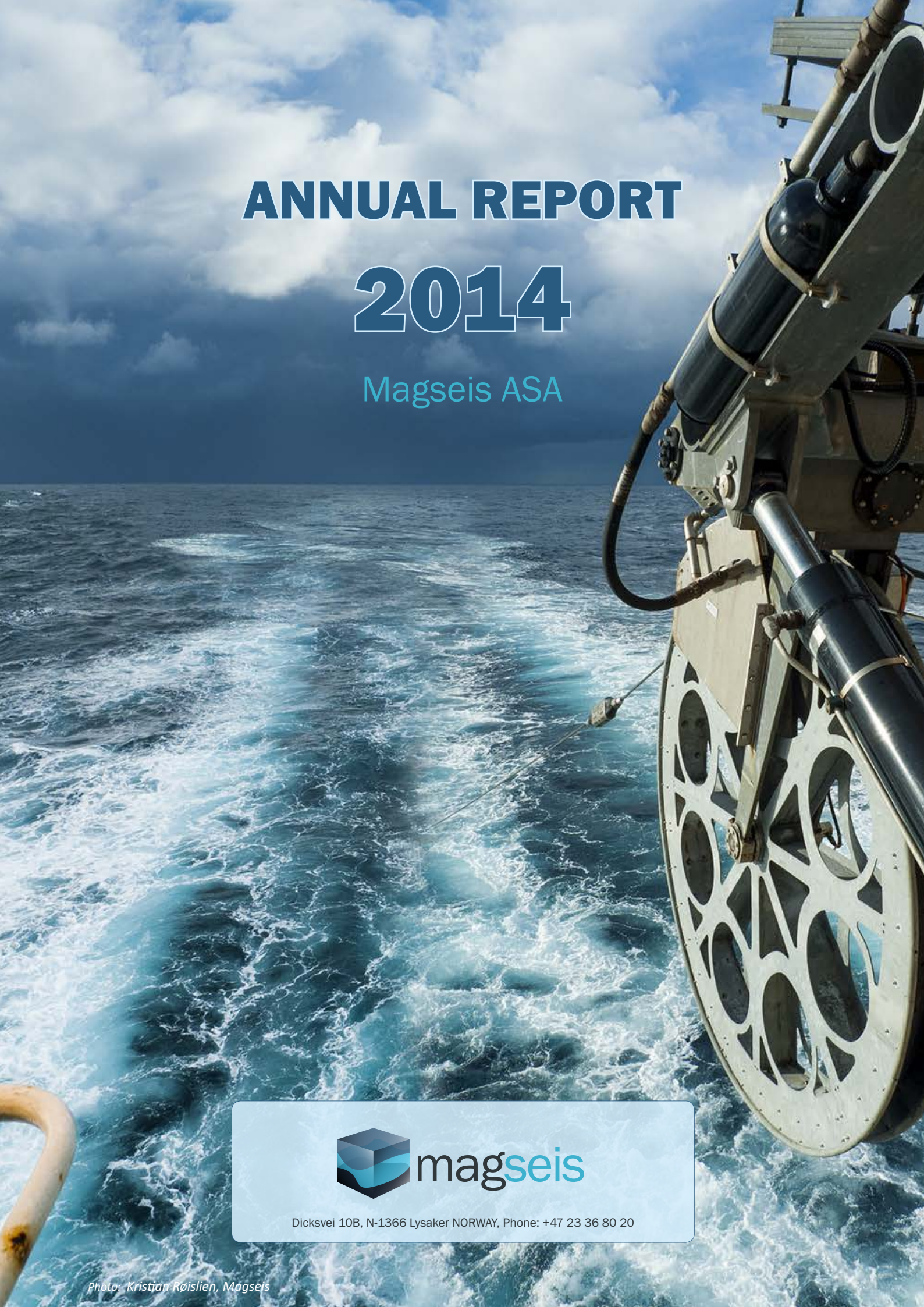
ANNUAL REPORT

2014

Magseis ASA



Dicksvei 10B, N-1366 Lysaker NORWAY, Phone: +47 23 36 80 20

Photo: Kristian Røislien, Magseis

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Bow of Artemis Athene at Gullfaks A *Photo: Magseis*

magseis

Dicksvei 10B, N-1366 Lysaker NORWAY, Phone: +47 23 36 80 20

MAGSEIS AT A GLANCE

- Magseis is a Norwegian geophysical company established in 2009 by founders with extensive industry experience.
- Our goal is to create the industry leading seabed seismic company using our proprietary MASS Ocean Bottom Seismic system.
- Our headquarters are in Oslo, with additional offices in Bergen and Stockholm.

HIGHLIGHTS

- During 2014 Magseis successfully commercialised its MASS technology and conducted surveys for Statoil, Talisman and HESS Denmark in the North Sea.
- In record time, Magseis has established itself as the leading provider of high-quality 4D seabed seismic surveys. Client feedback has been very positive, in particular related to data quality, positioning and operational and HSE performance.
- During December Magseis entered into a contract with Chevron North Sea Ltd for seabed acquisition on the UK sector of the North Sea in Q2 2015. This marks an important milestone for the Company as the first contract for a "Super Major".
- Investments in the upgrade of our first crew Artemis Athene, to enhance operational capacity and efficiency started during the fall and were completed in March 2015 which makes Magseis well-positioned to capture market share in the year to come.
- Revenues of USD 56.6 million, compared to USD 12.2 million in 2013.
- EBITDA of USD 5.1 million compared to USD -6.8 million in 2013.
- EBIT of USD -3.6 million compared to USD -8.8 million in 2013.
- Net Income of USD -5.4 million compared to USD -8.7 million in 2013.

Stern wheel of Artemis Athene in the Mediterranean Sea

Photo: Kristian Røislien, Magseis

CEO COMMENT

Magseis was awarded the oil service award Gullkronen in February 2015 as "New venture of the year", by Rystad Energy

During 2014 Magseis has successfully completed surveys for Statoil, Talisman and Hess Denmark. Through these projects we have built a strong track-record of executing challenging 4D surveys and it has been rewarding to receive the positive feedback from our clients with respect to data quality and operational performance

This is the first year of operations for our proprietary Marine Autonomous Seismic System (MASS) and, even as technical performance and operational efficiency have improved tremendously during the year, this also means that we have not captured the full earnings potential of the system during the "shakedown" pe- riod. In addition, the time it takes to establish sufficient track-record and the required international presence has impacted our rate levels towards the latter part of the year. Despite this, we still managed to generate a full-year EBITDA of USD 5.1 million and we believe this is quite an achievement for our first full year of operations.

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

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

Ivar Gimse
CEO Magseis

KEY FINANCIALS				
Profit and loss *In thousands of USD*	**Group 2014**	**Group 2013**	**Parent 2014**	**Parent 2013**
Revenues	56 606	12 239	56 625	12 244
Cost of sales	39 217	9 885	39 245	9 885
EBITDA	5 077	-6 831	5 087	-6 828
EBIT	-3 649	-8 812	-3 639	-8 809
Net profit (loss)	-5 379	-8 695	-5 403	-8 692
Basic earnings (loss) per share	-0.21	-0.41		
Financial position				
Total assets	82 021	58 662	82 230	58 652
Total liabilities	19 600	14 482	19 830	14 469
Total equity	62 421	44 180	62 400	44 183
Equity ratio	76.1%	75.3%	75.9%	75.3%
Cash flow				
Net cash flow from operating activities	5 948	-7 169	5 942	-7 194

THIS IS MAGSEIS

Company overview

Magseis ASA (the "Company" or "Parent") is a Norwegian geophysical company founded in 2009. The Company has developed a proprietary OBS acquisition system (the MASS system) based on the principle of small, autonomous sensor capsules that can be integrated in an optimized steel cable. The sensor capsules can be deployed and recovered at high speed, with great accuracy and in much larger quantities than existing equipment in the market.

On-board the vessel, the sensor capsules are handled by a fully-automated system based on well-established industrial robot technology as well as in-house developed software. The system has been designed to handle large numbers of sensor capsules in a safe and efficient manner while also reducing the amount of manual handling required.

The system is operated from the vessel Artemis Athene which is a seismic vessel that was rebuilt by its owner Artemis Athene AS in the second half of 2013 (a wholly owned subsidiary of Westcon Group AS) to enable Magseis' operations.

OBS data is widely recognised as the highest quality seismic data available today. Exploration and Production companies have over the past few years, started to adopt OBS technology to cope with increasingly challenging geology of today's reservoirs.
Traditionally exploration seismic has made up the majority of the total 3D volume, however, production related seismic is now the fastest growing segment, with OBS expected to capture an increasing share of high-end seismic work in the future relative to towed streamer seismic.

Magseis' technology allows an Ocean Bottom Cable to be deployed in much greater lengths than previously possible. Through this technology, Magseis aims to reduce the time required to conduct OBS surveys and consequently the cost. The vision is that OBS costs can be reduced to a level where it becomes a widely used tool not only for field development, but also for exploration.

The year in review

During 2014 Magseis completed its first commercial survey for Statoil ASA on the Snøhvit and Albatross fields. Despite challenging conditions we delivered high quality data and demonstrated our ability to work in rough difficult weather conditions. Following on from this Magseis conducted a number of 4D projects on the Gullfaks and Oseberg fields for Statoil, the Varg field for Talisman and on South Arne for Hess Denmark.
The surveys completed in 2014 have established Magseis as a leading provider of complex 4D surveys and played an important role in the award by Chevron North Sea Ltd of a survey on one of their fields in the UK sector during Q2 2015.

We are especially pleased in achieving a utilization rate in excess of 90% during our first year of operations. Throughout the year we have seen a tremendous improvement in the operating efficiency of our crew, and received uniformly positive feedback from clients with respect to data quality, operational and HSE performance.

Market developments

During 2014 the seabed seismic sector continued its positive development with a record level of activity in the North Sea (two crews fully employed throughout large parts of the year) as well as significant activity in Malaysia, Abu Dhabi, West Africa, Mexico and the US GoM. Internationally the trend towards larger surveys continues and during the early part of 2015 we have also seen a large multi-client project being initiated in the US GoM. This supports our view that interest in OBS continues to grow as clients see the value the data can provide in areas with complex geology and/or significant infrastructure.

Interestingly we also see that clients are starting to request autonomous node technologies and using much larger spreads than has previously been thought possible in a drive towards larger surveys at a lower cost.

The rapid decline in oil prices has had a dramatic effect on the demand for seismic services in general and although the seabed seismic segment has held up better than the broader market, we expect that 2015 will continue to be challenging given the significant focus on capex reduction among our clients. However, it is important to remember that seabed seismic is highly production-oriented and remains important for improved development and recovery of existing reservoirs. As such we see that, while some work may be pushed out in time as clients adjust to lower oil prices, these surveys remain firmly in their plans and that the activity level will return to normal sooner than the seismic market as a whole.

The year to come

During early 2015 Magseis completed its first multi-client project in the Barents Sea. Following this the Artemis Athene transited to the Red Sea to conduct a pilot survey for Saudi Aramco (through BGP International). This has ensured that we can participate in upcoming tenders in the region and marks the first step in a fast-moving process to expand our reach internationally.

Following the Red Sea survey Magseis completed an upgrade from 3000 sensor units and 75km of cable to 4500 sensor units and 150km of cable. The ongoing Chevron survey is the first time the expanded crew is in operation and is an important milestone in our strategy to develop "super crews" that can operate several hundred kilometres of cable and leading to significantly decreased OBS costs.

With the current industry pressure on costs we believe our strategy will enable us to capture significant market share in the years to come while also expanding OBS' share of the broader market. The weakening Norwegian Kroner has further improved our relative cost advantage and we expect that the market to secure vessel capacity will remain favourable for some time. Combined with our ongoing joint industry development project to adapt our technology for ultra-deep water 4D work we believe that the prospects for Magseis are bright despite the current headwind.

DIRECTORS

Name and Qualifications

Experience and Special Responsibilities

Anders Farestveit
Chairman, Non-Executive Director

Anders Farestveit has 45 years' experience from the seismic and oil exploration industry. Anders founded GECO in 1972 and served as CEO until 1987 when Schlumberger acquired 50% of the Group. Anders served as Working Chairman of Schlumberger Norway until 1999 when he retired. Anders was one of the founders of the seismic company Wavefield InSeis ASA which as listed at the Oslo Stock Exchange in 2007. Wavefield Inseis was subsequently acquired by CGG in 2008.

He has been recognised for his contribution to the seismic industry and has received several awards, as Honorary Doctor University of Bergen, Honorary member SEG and 1993 Oilman of the year by Society of Petroleum Engineers (SPE) International.

He holds a Master of Science degree in Geophysics.

Noralf Matre
Non-Executive Director

Noralf Matre has 40 years' of experience from the shipyard and offshore industries as CEO and in different senior management positions. Noralf is one of three main shareholders and board member of Westcon Group. Noralf is presently chairman for Maritim Management AS which is Westcon Group's seismic ship operation company.

As shipyard manager and ship owner Noralf has been involved with all aspects of ship building and operation of ships.

He is a College graduate from the University of Stavanger in 1973 within shipping economics.

Jan B Gateman
Executive Director
Senior Vice President

Jan Gateman has 30 years seismic industry experience, with particular focus on the Multi Client seismic business segment, and has held various senior management positions with companies such as Geco (1983- 1987), Nopec (1987-1993), Compagnie Generale de Geophysique (CGG) (1993-1998), GeoInnova, Inseis and Wavefield Inseis.

He was one of the persons pioneering the Multi Client 3D seismic industry in North West Europe and is also one of the founders of both GeoInnova and InSeis.

He holds a Master of Science degree in Marine Geology.

Mari Thjømøe
Non-Executive Director

Mari Thjømøe has 25 years of experience from the oil and energy sector and served as Senior Vice President in Statoil ASA, she was CFO of KLP, and CFO and acting CEO of Norwegian Property ASA. Mrs Thjømøe is working as an independent consultant and director/chairman of the Board in several private and public limited liability companies, including listed companies.
In 2014, Mrs Thjømøe was awarded the Gabrielsen board award.

She holds a Master of Economy and Business Administration from the Norwegian Business School (1987, BI), a Chartered Financial Analyst from the Norwegian School of Economics and Business Administration (1992, NHH) and has participated in the Senior Executive Programme at London Business School (2010) and "Making Corporate Boards More Effective" at Harvard Business School (2014).

Bettina Bachmann
Non-Executive Director

Bettina Bachmann joined Shell in 1983 in The Hague as an explorer and soon moved to Tunisia, where her first assignment included geological fieldwork and exploration evaluation. This was followed by a number of postings across the Middle East and Europe in various technical and leadership roles in exploration and production. Moving jobs, house, schools and countries became more complicated as the family grew, but has made life interesting and provided many great memories.

Following a short assignment to design leadership courses for exploration, Bettina moved to Upstream R&D in 2005 where she was responsible for strategy, planning and technology deployment. End 2009, Bettina was appointed Vice President for Subsurface and Wells Software in Production and Technology. Since 2012, this also includes Shell's globally organised support and deployment teams in the regions.

She holds a Masters degree in geophysics from the ETH in Zurich.

EXECUTIVE MANAGEMENT

Ivar Gimse
Chief Executive Officer

Ivar Gimse has more than 25 years seismic industry experience, with particular focus on data processing, multi-client seismic project development, Ocean Bottom Cable operations and technical marketing. Ivar held various senior management positions with Geco-Prakla (1983-1998) and PGS (1998-2006) before joining InSeis in 2006 as Vice President, Business Development.

He holds a Master of Science degree in Geophysics.

Mikkel Ektvedt
Chief Financial Officer

Mikkel Ektvedt has more than 15 years of experience from the finance and offshore industries. From 2000 until 2008 Mikkel worked for the corporate finance division of SEB in London and Oslo. Prior to joining Magseis, Mikkel worked as VP of corporate development for FLEX LNG in London.

He holds a Bachelor of Business Administration from Simon Fraser University in Canada.

Bjørn Jensen
Chief Operating Officer

With almost 20 years of experience from the Offshore service industry, Bjørn Jensen joined Magseis in June 2014. Prior to entering his current role as COO of Magseis, he's held various managerial positions, lastly as Managing Director of iSurvey AS, a Norwegian based offshore survey company. From 1995 to 2011 Bjørn worked for PGS, both offshore and from 1998 in different roles on shore. From 2008 he held the position as VP Operations with a global operational responsibility for all PGS Marine Seismic operations.

He holds a master of Science in Engineering Cybernetics, specialising in Navigation and Control of marine vessels from NTNU in Trondheim.

BOARD OF DIRECTORS REPORT

Land Nodes deployed in Red Sea

Photo: Magseis

FINANCIAL REVIEW

New functional and presentation currency for the Group and Parent

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

Revenues (Group and Parent)

The revenue was USD 56.6 million whereof USD 0.4 million relates to a multi-client survey and the rest relates to ordinary exclusive contract surveys. In 2013, the revenue amounted to USD 12.2 million. The large increase is due to operations starting in the fourth quarter of 2013.

Operational costs (Group and Parent)

Cost of sales amounted to USD 39.2 million in 2014 and mainly contains cost related to vessel operations such as time charter, fuel cost and crew cost. In 2014 cost of sales includes USD 1.1 million of cost recorded based on percentage of completion method and net loss in relation with a multi-client project in progress at year end. In 2013 cost of sales amounted to USD 9.9 million and the large increase from 2013 to 2014 is due to start of operations in the fourth quarter 2013.

Selling general and administration expenses (SG&A) and other expenses amounted to USD 10.7 million compared to USD 7.8 million in 2013. The increase is mainly due to a gradual growth of the Group, but is also due to special circumstances in 2014 such as the listing of Magseis ASA on Oslo Axess.

Research and development (Group and Parent)

Research and development expenses (R&D) was USD 1.6 million. R&D cost contains cost related to the R&D department in Sweden and other R&D projects. During 2014 approximately 50% of all R&D cost has been capitalized as part of seismic equipment. In 2013 R&D cost amounted to USD 1.4 million and also consisted mainly of cost related to development of seismic equipment.

Depreciation, amortisation and impairment (Group and Parent)

Depreciation and amortisation amounted to USD 7.6 million in 2014 compared to USD 2.0 million in 2013. The production of the seismic equipment was completed at the end of the third quarter last year which resulted in only three months depreciation and amortisation in 2013. In addition to a full year of depreciation and amortisation in 2014, Magseis has produced additional seismic equipment which has been depreciated in the latter part of the year.

During the "shakedown period" Magseis incurred damage on parts of its seismic equipment which has resulted in an impairment of USD 1.1 million in 2014. No impairment was recognised in 2013.

Financial items (Group and Parent)

In 2014 finance income for the Group amounted to USD 3.8 million and USD 3.7 million for the Parent. The finance income mainly contains gross foreign exchange gain. In 2013 financial income was USD 0.7 million for both Group and Parent. In 2014 financial costs was 5.5 million. In addition to gross foreign exchange loss financial costs contains a loss from fair value adjustment of a convertible loan of USD 0.5 million and interest expense related to a finance lease of USD 0.5 million. Financial costs amounted to USD 0.5 million in total in 2013.

EBITDA and EBIT (Group and Parent)

In 2014 the Group recorded an EBIT of USD 5.1 million and an EBIT of USD -3.6 million. The significant reduction is in oil price during 2014 contributed to a challenging market in the second half of the year and resulted in lower revenue than expected and therefore lower EBITDA and EBIT.

In 2013 EBITDA was USD -6.8 million while EBIT was USD -8.8 million. The start of operations in the fourth quarter in 2013 is the main reason behind the large increase in EBITDA and EBIT from 2013 to 2014.

Net loss (Group and Parent)

Net income for 2014 was USD -5.4 million for both the Group and the Parent compared to USD -8.7 million in 2013. The net loss in 2014 is transferred to retained earnings.

Other comprehensive income (Group and Parent)

In 2014 Magseis recognised currency exchange differences of USD -1.2 million compared to USD -4.7 million in 2013. The currency exchange difference originates from the change in functional currency and presentation currency on 1 July 2014. The currency translation differences arises from using different currency rates for profit and loss, assets and liabilities, equity and other non-monetary items. The effect is shown as currency translation reserve in the statement of changes in equity.

Balance sheet and cash flow (Group and Parent)

As at 31 December 2014 the equity was USD 62.4 million of which USD -5.1 million relates to a currency translation reserve which reflects the currency differences triggered by the change of presentation currency from NOK to USD. The equity as at 31 December 2013 amounted to USD 44.2 of which USD -4.0 million relates to the currency translation reserve. The increase in equity is mainly due to the capital-raising of USD 20.1 million completed in April 2014 and the conversion of a convertible loan of USD 4.0 million conducted in the second quarter of 2014, offset by the loss incurred in 2014.

Tangible and intangible assets amounted to USD 48.3 million as at 31 December 2014 compared to USD 39.5 million at the end of 2013. The increase reflects investments made in 2014 relating to increasing the capacity on the current vessel, offset by a total depreciation and amortisation of USD 7.6 million and an impairment of USD 1.1 million in the period from 31 December 2013 to 31 December 2014. As at 31 December 2014, the Group's current assets amounted to USD 33.7 million while the Parent's current assets amounted to USD 33.9 million compared to USD 19.1 million for both Group and Parent in 2013. The increase was mainly due to an increase in cash and cash equivalents of 14.7 million resulting from a capital raise conducted as well as cash flow generated during the same year.

Non-current liabilities decreased from USD 5.4 million as at 31 December 2013 to USD 4.1 million in 2014. The decrease is mainly due to amortisation of the time charter lease for Artemis Athene. As at 31 December 2014 current liabilities for the Group amounted to USD 15.5 million and for the Parent USD 15.7 million compared to USD 9.1 million as at 31 December 2013 for both Group and Parent. The increase mainly reflects higher trade payables and accruals in 2014 related to cost for development of new equipment in 2014.

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

FUNDING AND GOING CONCERN

The consolidated annual financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the settlement of liabilities in the normal course of business. In 2014 the Group incurred a loss after tax of USD 5.4 million and ended with a cash balance of USD 21.6 million and a working capital surplus of USD 18.2 million as at 31 December 2014.

The group has contracted backlog to mid-July 2015, however the directors are aware that additional work for the second half of 2015 and beyond will need to be secured for the Group to continue its business as budgeted which includes meeting its ongoing obligations and expansion plans.

If the Group does not secure a sufficient amount of work for the second half of 2015, the cash flows from operations will not be sufficient to cover the company's daily operations. Whilst there is inherent uncertainty regarding the outcome of securing backlog, the Board is confident, based on the current status of client dialogue and Magseis' cost-efficient position, that the Group will secure the necessary work to fund the operations and expansion of the group.

The ability of the Group to continue as a going concern, and thereby be able to pay its debts as and when they fall due, is dependent on the Group securing new customer contracts, alternatively the Group has the capacity to delay or cancel a number of expenses that are discretionary in nature including administration costs and supplier contracts that are not contractually binding, reduce headcount, or further working capital may need to be raised by additional equity or financing facilities.

Pursuant to section 3-3a of the Norwegian Accounting Act, the Board confirms that the 2014 financial statements have been prepared based on the assumption of a going concern.

RISKS

The Group is exposed to risk factors including, but not limited to, the ones described below.

Due to the current market situation, the Group's current focus is to secure backlog for our existing crew. Magseis has a strategic plan of growth which includes expansion to a second crew during 2016. The current focus and future plans expose the Group to a variety of commercial, operational and financial risks, including market risks, credit risks and liquidity risks.

Magseis is exposed to the economic cycle and macro-economic fluctuations, since changes in the general economic situation affect the demand for seismic technology and services as the seismic industry experienced in the second half of 2014. Although the challenging market situation has not impacted Ocean Bottom Seismic ("OBS") as severely as streamer seismic, and there are strong drivers supporting the anticipated growth of OBS acquisition, no assurance can be provided with regard to future market development. Magseis' business and operations depends heavily upon development and production spending by oil and gas companies. The reduction in activity initiated in 2014 may therefore result in a decreased demand for OBS acquisition services. However, historically, in times of low oil price, it is the exploration spending which is reduced, as opposed to production related spending, where Magseis is active.

The Group has historically funded its operations through equity financing. Obtaining such financing may be subject to market risks and other risks that influence the availability, structure and terms of financing. The willingness of investors so invest depends on the outlook for the OBS market and the demand for oil products, which again is dependent on the oil price. Magseis is continuously working with finance institutions and potential investors to obtain the necessary knowledge to create an ad- vantageous capital structure.

The Group's revenue and purchases are denominated in various currencies. This involves risks for variations in currency rates.

The revenue and cash flow from operations gives the Group access to working capital for on-going operations. This revenue and cash flow are both dependent on the financial position of the customers and the willingness of these customers to honour their obligations towards Magseis in a timely manner. The inability of one or more of the contractual parties to make payment under the contracts might have a significant adverse effect on the Group's financial position. The Group's revenue is primarily from large international oil and gas companies, including companies owned whole or in part by governments, and the Board deems the Group's exposure to credit risk as relatively limited due to the nature of the Group's customer base.

The Group may require additional capital in the future, due to unforeseen events or in order to take advantage of opportunities such as expansion of capacity, acquisitions, joint ventures or other business opportunities that may be identified. Any negative development in sales, gross margins or sales processes, may lead to a strained liquidity position and a potential need for additional funding through equity financing, debt financing or other means. Any additional equity financing may be dilutive to existing shareholders.

WORKING ENVIRONMENT AND PERSONNEL

At the end of 2014, Magseis had a total of 71 employees and 15 full time consultants, whereof 75 are men and 11 women. Of the 71 employees, 40 are based offshore and 31 are based onshore. There have not been any serious injuries or accidents in the current or prior year. In 2014 the average sick day percentage for the onshore staff was 0.6 percent and 1.9 percent for the offshore crew. In 2013 their average sick days recorded was 0.0 percent. The Group's policy prohibits unlawful discrimination against employees, on account of ethnic or national origin, age, gender, sexual orientation or religion. Respect for the individual is the cornerstone of this policy and the Group also aims to treat its employees with dignity and respect.

CORPORATE SOCIAL RESPONSIBILITY

Magseis attaches great importance to corporate social responsibility. Our business is dependent on the quality of our internal routines for quality, health, safety and environment (QHSE). We have established a QHSE department, which works full time on integration of policies, principles, procedures and standards.

Human rights and labour

Magseis' employees originate from around the world, and there may be situations where Magseis hires employees from, or executes operations in countries where human rights may be at risk. Magseis continuously strives to prevent potential situations where the Company contributes to breaching internationally acknowledged human rights.

In operations and in the supply chain, Magseis respects fundamental labour rights and labour standards, such as non-discrimination, freedom of association and collective bargaining, decent wages and regulated working hours. Where local law is setting a lower standard than international standards, Magseis makes its best effort to meet international standards. While employee association practices may vary in different countries in accordance with local standards, Magseis endeavours to involve employees and appropriate representatives in the development of the Company.

Environment

Magseis recognises that its activities have an impact on the environment in the use of raw materials, emissions to air and water, waste generation, and interaction with marine life and habitat.

Magseis is committed to minimising this impact as far reasonably achievable for both offshore and office based activities. This is conducted through maintaining a program of continual improvement in environmental performance incorporating suitable measurement and monitoring.

Magseis has developed and implemented an Environmental Management System (EMS) in order to document best practice within the Company, and delivers high quality sea floor data in a manner that meets the Group's environmental objectives. The EMS is in alignment with the requirements of ISO 14001:2004, the internationally recognised standard for environmental management.

Anti-corruption

Magseis' operations may in the future be executed in parts of the world where corruption and bribery is more prevalent. To prevent contributing to companies and individuals gaining an unfair advantage, Magseis has established anti-bribery and anti-corruption guidelines. The guidelines involve conducting background checks and due diligence reviews on new potential agents and business partners. There are also guidelines incorporated in Magseis's Code of Conduct, with a mandatory requirement for all employees to read and sign a compliance agreement. Where the Code of Conduct or company guidelines differ from local laws or regulations, the highest standard applies.

Board of Directors of Magseis ASA,
Lysaker, 16 April 2015

Anders Farestveit, *Chairman*	Noralf Matre, *Non-executive Director*	Jan Gateman, *Director and Senior Vice President*
Bettina R. Bachmann, *Non-executive Director*	Mari Thjømøe, *Non-executive Director*	Ivar Gimse, *Chief Executive Officer*

STATEMENT ON FINANCIAL COMPLIANCE

We confirm, to the best of our knowledge, that the consolidated financial statements and the separate financial statements of the Parent for the period 1 January to 31 December 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations by the International Financial Reporting Interpretations Committee (IFRICs) as adopted by the European Union (EU), and additional requirements in the Norwegian Accounting Act and gives a true and fair view of the assets, liabilities, financial position and results of the Group and Parent. We also confirm to the best of our knowledge that the Board of Directors report includes a true and fair review of the development, performance and financial position of Magseis ASA and the Group together with a description of the principal risks and uncertainties that they face.

Board of Directors of Magseis ASA,
Lysaker, 16 April 2015

Anders Farestveit, *Chairman*	Noralf Matre, *Non-executive Director*	Jan Gateman, *Director and Senior Vice President*
Bettina R. Bachmann, *Non-executive Director*	Mari Thjømøe, *Non-executive Director*	Ivar Gimse, *Chief Executive Officer*

CORPORATE GOVERNANCE REPORT

General principles, implementation and reporting on Corporate Governance

The Group believes that good and sound corporate governance creates higher shareholder value. As a result, Magseis is committed to developing high standards of Corporate Governance. Magseis' principles of Corporate Governance are being developed in light of the Norwegian Code of Practice for Corporate Governance (the "Code") as required for all listed companies on the Oslo Stock Exchange.
The Code is available on www.nues.no.

The principles are also in accordance with section 3-3b of the Norwegian Accounting Act, which can be found at www.lovdata.no/all/nl-19980717-056.html. Magseis views the development of high standards of Corporate Governance as a continuous process and will continue to focus on improving the level of Corporate Governance.

The Board of Directors has the overall responsibility for Corporate Governance at Magseis and ensures that the Group implements sound Corporate Governance.

Business of Magseis

The vision of Magseis is to reduce OBS cost to a level where it becomes a widely used tool not only for field development, but also for exploration. This is reflected in Article 3 of the Articles of Association, which reads "The company's business activities include development of geophysical equipment and methods, generation, marketing and sale of exclusive and non-exclusive geophysical exploration and other thereto naturally related activities
The Group's core purpose is to significantly reduce the costs of OBS operations and broaden the scope where OBS can be used. Magseis wants to be their customers' first choice within field development and the exploration industry. In fulfilling this purpose, Magseis will create long-term value for their customers and shareholders.

Equity and dividends

The Group's equity as per 31 December 2014 amounts to USD 62.4 million i.e. 76% of the Group's total assets, and is considered adequate relative to the Company's financial objectives, overall strategy and risk profile. On a continuous basis, Magseis evaluates the available alternatives to ensure adequate liquidity for its prioritised project activities and to provide the required long-term financial strength and flexibility. To achieve its ambitious long-term growth objectives, it is likely that Magseis will need to raise additional capital in the years to come.

Magseis aims to adhere to a dividend policy that is favorable to its shareholders. Distribution of dividends will be adjusted in accordance with investment requirements and other financial circumstances for the Company. Magseis has so far not paid any dividends. As per 31 December 2014 the Company has no distributable equity and the Board will not propose a dividend for 2014 to the Annual General Meeting.

Equal treatment of shareholders and transactions with close associates

Magseis has only one class of shares. All shares in the Group carry equal voting rights. The shareholders exercise the highest authority in the Group through the General Meeting. All shareholders are entitled to submit items to the agenda, and to meet, speak, and vote at the General Meeting.

Freely negotiable shares

The Company's shares are not subject to ownership restrictions pursuant to law, licensing conditions or the Articles of Association and all shares are freely negotiable (with possible exceptions due to foreign law restrictions on sale and offering of securities).

General Meetings

Through the Company's General Meeting, the shareholders exercise the highest authority in the Group. General Meetings are held in accordance with the Code. All shareholders are entitled to submit items to the agenda, meet, speak and vote at General Meetings. The Annual General Meeting is held each year before the end of June. Extraordinary General Meetings may be called by the Board of Directors at any time.

General Meetings are convened by written notice to all shareholders with known addresses, no later than 21 days prior to the date of the meeting. Proposed resolutions and supporting information, including information on how to be represented at the meeting, vote by proxy and the right to propose items for the General Meeting, is generally made available to the shareholders no later than the date of the notice. Shareholders who wish to receive the attachments may request the Group to mail such attachments free of charge. Resolutions and the supporting information are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered in the meeting.

Shareholders who are unable to be present in the meeting are encouraged to participate by proxy, and a person who will be available to vote on behalf of shareholders as their proxy will be nominated. Proxy forms will allow the proxy-holder to cast votes for each item separately. A final deadline for shareholders to give notice of their intention to attend the meeting or vote by proxy will be set in the notice for the meeting. Such deadline will be set as close as possible to the date of the General Meeting, and under any circumstance in accordance with the principles of section 5-3 of the Public Limited Companies Act.

The Chairman of the Board, the CEO, and the CFO will, under normal circumstances, be present at the meeting in person. The Chairman for the meeting is independent. Notice, enclosures and protocol of meetings will be available on Magseis' website.

The General Meeting elects the members of the Board of Directors (excluding company representatives), determines the remuneration of the members of the Board of Directors, approves the annual accounts and decides such other matters, which by law, by separate proposal or according to the Group's Articles of Association, are to be decided by the General Meeting. The General Meeting will normally vote separately on each candidate for election for the Board of Directors and any other corporate bodies to which members are elected by the General Meeting.

The minutes from General Meetings will be posted on the

Group's Website within 15 days after the General Meeting has been held. Information that a General Meeting has been held will be made public as soon as possible after the end of the meeting.

Nomination committee

Magseis' nomination committee consists of two members where one is the Chairman of the Board of Directors and the other is independent of the Board of Directors and the executive management. The Code states that the majority of the committee's members should be independent of the Board of Directors and the executive management and that at least one member should not be a member of the Board of Directors. Since the Nomination Committee only consists of two members the Code's guidelines are assessed to be met. The requirement for having a nomination committee and the committee's duties are incorporated in the Company's Articles of Association. The General Meeting elects the members of the committee and approves the Nomination Committee Guidelines and remuneration. The Nomination Committee's duties are to submit to the General Meeting a proposal of candidates for election to the Board of Directors and to propose the fees to be paid to members of the Board of Directors.

Corporate assembly and Board of Directors: Composition and independence

According to Norwegian law, Magseis is not required to have and does not have a corporate assembly.

The Board of Directors has overall responsibility for the management of the Group. This includes a responsibility to supervise and exercise control of the Group's activities. As at the date of the Annual Report, the Board of Directors consists of five members, including one company representative. The proceedings and responsibilities of the Board of Directors are governed by a set of rules of procedure. It is the Group's intention that the members of the Board of Directors will be selected in the light of an evaluation of the Group's needs for expertise, capacity and balanced decision making, with the aim of ensuring that the Board of Directors can operate independently of any special interests and that the Board of Directors can function effectively as a collegial body.

The directors are encouraged to hold shares in the Group, which the Board believes promotes a common financial interest between the members of the Board and the shareholders of the Group.

Pursuant to the Code, the majority of the shareholder-elected members of the Board of Directors shall be independent of the Group's management and its main business connections. At least two of the shareholder-elected members of the Board of Directors shall be independent of the Group's main shareholders.

Both Mari Thjømøe and Bettina Bachman are considered to be independent of the Group's main shareholders. However, the majority of shareholder-elected directors are not independent of the Group's management and main business connections. Currently, one executive consultant is a director. The current members of the Board of Directors represent 48 % of the shareholders. The executive consultant is the second largest shareholder with ownership of approx. 13 %. The Board of Directors continuously evaluates conflict of interest and the members' independence in each resolution. The Group believes the current composition of the Board of Directors is favourable for all shareholders and the Company.

The term of office for members of the Board of Directors is two years unless the General Meeting decides otherwise, but a director may be re-elected.

The work of the Board of Directors

The Board of Directors meets a number of times within a year, including for strategy meetings, financial reporting and additional meetings under special circumstances if necessary. During 2014, the Board of Directors held 16 meetings. The large number of meetings was due to special circumstances including the listing the Company on Oslo Axess. The Board of Directors working methods are openly discussed. Between meetings, the Chairman and Chief Executive Officer update the Board members on current matters. There is frequent contact regarding the progress and affairs of the Group. Each Board meeting includes a briefing by one of the functional or department managers of the Group followed by Q&A. The Board meetings are a continuous centre of attention for the Board of Directors, ensuring executive personnel maintain systems, procedures and a corporate culture that promote high ethical conduct and compliance with legal and regulatory requirements.

In 2014 the Group received an exemption from the requirement to have an Audit Committee by the Public Companies Act and the Stock Exchange Regulations. As the Company no longer meets the criteria for exemption, an Audit Committee will be established by the 2015 Annual General Meeting.

Remuneration of the Board of Directors

The Board members' remuneration is resolved in the Annual General Meeting.

Remuneration of the executive personnel

The Group's policy for management remuneration is that leading employees shall receive competitive salary in order to maintain continuity in the executive management. The Group shall offer a level of salary, which reflects the level of salary in equivalent companies in Norway and abroad. All executive personnel are included in the Group's share option program.

Risk management and internal control

The Board, in conjunction with the executive management, evaluates the risks inherent in the operations of the Group. Principal among these risks are those relating to current operations as well as construction of the Group's proprietary system, obtaining contractual counter-parties, retaining key staff and general financial risk. In addition, the following risks inherent in the business plan are monitored: commodity prices, exchange rates, competition, the political and regulatory environment, counter-party performance, and the potential growth of the business and the application of new technology.

The Board, working with the finance department and through the annual audit process, ensures that the Group has reliable internal control and systems for risk management.

The Board is presented and approves an annual budget at the end of the preceding financial year or in the beginning of the commencing financial year. Thereafter, the Board is presented with regular updates and reports identifying material variations from the approved budget. Explanations are obtained

for material variances. The Board is also presented with financial statements on a quarterly basis, which are reviewed with the executive management. The Group's annual accounts provide information on internal control and risk management systems as they relate to its financial reporting.

Information and communications

Communication with shareholders, investors and analysts is a high priority for Magseis. The Group believes that objective and timely information to the market is a prerequisite for a fair valuation of the Group, and in turn, the generation of shareholder value. The Group continually seeks ways to enhance its communication with the investment community.

Take-overs

The Board of Directors endorses the recommendation of the Code. The Articles of Association of Magseis do not contain any restrictions, limitations or defence mechanisms on acquiring the Group's shares. In accordance with the Securities Trading Act and the Code, the Board has adopted guidelines for possible takeovers. In the event of an offer, the Board of Directors will not seek to hinder or obstruct takeover bids for Magseis' activities or shares. Any agreement with the bidder that acts to limit the Group's ability to arrange other bids for the Group's shares will only be entered into where the Board believes it is in the common interest of the Group and its shareholders. Information about agreements entered into between the Group and the bidder that are material to the market's evaluation of the bid will be publicly disclosed no later than at the same time as the announcement that the bid will be made is published. If an offer is made for the shares of Magseis, the Board of Directors will make a recommendation on whether the shareholders should or should not accept the offer, and will normally arrange for a valuation from an independent expert.

Auditor

The auditor is to participate in meetings of the Board of Directors that deal with the annual accounts. The auditor will present to the Board of Directors a report outlining the audit activities in the previous fiscal year and highlighting the areas that caused the most attention or discussions with management, and a plan for the work related to the Group's audit. The Board meet with the company´s auditor without management present at least one time every year. The General Meeting is informed about the Group's engagement and remuneration of the auditor and the fees paid to the auditor for services other than the annual audit, and details are given in notes to the Annual Report.

Artemis Athene sourceline shooting at South Arne Field *Photo: Magseis*

FINANCIAL STATEMENTS

Statements of comprehensive income

For the year ended 31 December 2014

magseis

In thousands of USD	*Note*	Group 2014	Group 2013	Parent 2014	Parent 2013
REVENUE AND OTHER INCOME					
Revenue	*5*	56 606	12 239	56 606	12 239
Other income	*5*	0	0	19	5
Total revenue and other income		**56 606**	**12 239**	**56 625**	**12 244**
OPERATING EXPENSES					
Cost of sales	*6*	39 217	9 885	39 245	9 885
Research and development expenses	*6*	1 591	1 378	1 591	1 378
Selling, general and administrative costs	*6*	7 767	4 813	7 751	4 810
Other expenses		2 954	2 994	2 951	2 999
Depreciation and amortisation	*13, 14*	7 607	1 981	7 607	1 981
Impairment	*13*	1 119	0	1 119	0
Total operating expenses		**60 255**	**21 051**	**60 264**	**21 053**
OPERATING PROFIT (LOSS)		**-3 649**	**-8 812**	**-3 639**	**-8 809**
FINANCIAL INCOME AND EXPENSES					
Finance income	*7*	3 784	659	3 740	659
Finance costs	*7*	-5 514	-542	-5 504	-542
Net finance costs		**-1 730**	**117**	**-1 764**	**117**
NET PROFIT (LOSS) BEFORE TAX		**-5 379**	**-8 695**	**-5 403**	**-8 692**
Income tax expense	*10*	0	0	0	0
NET PROFIT (LOSS)		**-5 379**	**-8 695**	**-5 403**	**-8 692**
Basic earnings (loss) per share (in USD)	*16*	-0.21	-0.41		
Diluted earnings (loss) per share (in USD)	*16*	-0.21	-0.41		
OTHER COMPREHENSIVE INCOME					
Currency exchange differences	*15*	-1 155	-4 660	-1 155	-4 660
Total comprehensive income (loss) for the year, attributable to Owners of the Company		**-6 534**	**-13 355**	**-6 558**	**-13 352**

Statements of financial position
For the year ended 31 December 2014

magseis

In thousands of USD	*Note*	Group 2014	Group 2013	Parent 2014	Parent 2013	Group/Parent 2012 *(1)*
Non-current assets						
Equipment	*13*	46 346	37 343	46 346	37 343	7 447
Intangible assets	*14*	1 939	2 205	1 939	2 205	2 185
Investment in subsidiary	*21*	0	0	8	8	0
Total non-current assets		**48 285**	**39 548**	**48 293**	**39 556**	**9 632**
Current assets						
Cash and cash equivalents	*8*	21 591	6 867	21 560	6 842	46 286
Trade receivables		7 621	9 200	7 621	9 200	0
Other current assets	*9*	4 524	3 047	4 756	3 054	3 196
Total current assets		**33 736**	**19 114**	**33 937**	**19 096**	**49 482**
TOTAL ASSETS		**82 021**	**58 662**	**82 230**	**58 652**	**59 114**
Equity						
Share capital	*15*	237	186	237	186	186
Share premium	*15*	83 755	60 026	83 755	60 026	60 026
Other equity	*17*	2 039	1 044	2 039	1 044	140
Retained earnings		-18 487	-13 108	-18 508	-13 105	-4 413
Currency translation reserve		-5 123	-3 968	-5 123	-3 968	692
Total equity attributable to equity holders of the Company		**62 421**	**44 180**	**62 400**	**44 183**	**56 631**
TOTAL EQUITY		**62 421**	**44 180**	**62 400**	**44 183**	**56 631**
Non-current liabilities						
Obligation under finance lease	*18*	2 739	3 501	2 739	3 501	0
Other non-current financial liabilities	*18*	1 369	1 867	1 369	1 867	0
Total non-current liabilities		**4 108**	**5 368**	**4 108**	**5 368**	**0**
Current liabilities						
Trade payables	*3*	8 050	4 335	8 046	4 335	1 843
Current tax payable	*10*	0	34	0	34	37
Current portion of obligations under finance lease	*18*	761	685	761	685	0
Other current liabilities	*11*	6 681	4 060	6 915	4 047	603
Total current liabilities		**15 492**	**9 114**	**15 722**	**9 101**	**2 483**
TOTAL LIABILITIES		**19 600**	**14 482**	**19 830**	**14 469**	**2 483**
TOTAL EQUITY AND LIABILITIES		**82 021**	**58 662**	**82 230**	**58 652**	**59 114**

(1) Third balance sheet included due to change in functional currency. Refer to note 2.1 Basis for preparation.

Board of Directors of Magseis ASA, Lysaker, 16 April 2015

Anders Farestveit, *Chairman*	Noralf Matre, *Non-executive Director*	Jan Gateman, *Director and Senior Vice President*
Bettina R. Bachmann, *Non-executive Director*	Mari Thjømøe, *Non-executive Director*	Ivar Gimse, *Chief Executive Officer*

GROUP

In thousands of USD	*Note*	Share capital	Share premium reserve	Share based payments reserve	Retained earnings	Currency translation reserve	Total
Balance at 1 January 2013		186	60 026	140	-4 413	692	56 631
Profit / (loss) for the year		0	0	0	-8 695	0	-8 695
Other comprehensive income		0	0	0	0	-4 660	-4 660
Total comprehensive income for the year		0	0	0	-8 695	-4 660	-13 355
Share-based payments (options)		0	0	904	0	0	904
Balance at 31 December 2013	*15*	186	60 026	1 044	-13 108	-3 968	44 180
Balance at 1 January 2014		186	60 026	1 044	-13 108	-3 968	44 180
Profit / (loss) for the year		0	0	0	-5 379	0	-5 379
Other comprehensive income		0	0	0	0	-1 155	-1 155
Total comprehensive income for the year		0	0	0	-5 379	-1 155	-6 534
Share issuance		43	20 120	0	0	0	20 163
Loan conversion		8	3 992	0	0	0	4 000
Fair value adjustment convertible loan		0	550	0	0	0	550
Expenses related to share issuance		0	-869	0	0	0	-869
Expenses related to conversion of loan		0	-64	0	0	0	-64
Share-based payments (options)		0	0	995	0	0	995
Balance at 31 December 2014	*15*	**237**	**83 755**	**2 039**	**-18 487**	**-5 123**	**62 421**

PARENT

In thousands of USD	*Note*	Share capital	Share premium reserve	Share based payments reserve	Retained earnings	Currency translation reserve	Total
Balance at 1 January 2013		186	60 026	140	-4 413	692	56 631
Profit / (loss) for the year		0	0	0	-8 692	0	-8 692
Other comprehensive income		0	0	0	0	-4 660	-4 660
Total comprehensive income for the year		0	0	0	-8 692	-4 660	-13 352
Share-based payments (options)		0	0	904	0	0	904
Balance at 31 December 2013	*15*	186	60 026	1 044	-13 105	-3 968	44 183
Balance at 1 January 2014		186	60 026	1 044	-13 105	-3 968	44 183
Profit / (loss) for the year		0	0	0	-5 403	0	-5 403
Other comprehensive income		0	0	0	0	-1 155	-1 155
Total comprehensive income for the year		0	0	0	-5 403	-1 155	-6 558
Share issuance		43	20 120	0	0	0	20 163
Loan conversion		8	3 992	0	0	0	4 000
Fair value adjustment convertible loan		0	550	0	0	0	550
Expenses related to share issuance		0	-869	0	0	0	-869
Expenses related to conversion of loan		0	-64	0	0	0	-64
Share-based payments (options)		0	0	995	0	0	995
Balance at 31 December 2014	*15*	**237**	**83 755**	**2 039**	**-18 508**	**-5 123**	**62 400**

In thousands of USD	*Note*	Group 2014	Group 2013	Parent 2014	Parent 2013
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit / (Loss) before tax		-5 379	-8 695	-5 403	-8 692
Adjustment for:					
Income tax paid	*10*	-34	0	-34	0
Depreciation and amortisation	*13, 14*	7 607	1 981	7 607	1 981
Deferred lease discount amortisation		-498	2 234	-498	2 234
Impairment	*13*	1 119	0	1 119	0
Fair value adjustment conversion of loan		550	0	550	0
Share based payments expense	*17*	995	904	995	904
Interest expense		454	115	454	115
Interest income		-242	-615	-242	-615
Working capital adjustments:					
(Increase) / decrease in trade receivables and other current assets		103	-9 052	- 125	-9 059
Increase / (decrease) in trade and other payables and accruals		1 273	5 959	1 519	5 938
		1 376	-3 093	1 394	-3 121
Net cash from operating activities		**5 948**	**-7 169**	**5 942**	**-7 194**
Cash flows from investing activities:					
Interest received		242	615	242	615
Investment in subsidiary		0	0	0	-8
Acquisition of equipment	*13*	-13 403	-31 877	-13 403	-31 869
Payments for capitalised development and intangibles	*14*	-198	-325	-198	-325
Net cash used in investing activities		**-13 359**	**-31 587**	**-13 359**	**-31 587**
Cash flows from financing activities:					
Proceeds from sale and leaseback	*18*	0	4 167	0	4 167
Proceeds from loan	*11, 15*	5 200	0	5 200	0
Payment of finance lease obligation		-685	-55	-685	-55
Proceeds from issue of share capital	*15*	20 163	0	20 163	0
Expenses related to issue of share capital	*15*	-934	0	-934	0
Interest paid		-454	-115	-454	-115
Net cash from financing activities		**23 290**	**3 997**	**23 290**	**3 997**
Net change in cash and cash equivalents		15 879	-34 759	15 873	-34 784
Cash and cash equivalents at 1 January		6 867	46 286	6 842	46 286
Net foreign exchange difference	*15*	-1 155	-4 660	-1 155	-4 660
Cash and cash equivalents at 31 December		**21 591**	**6 867**	**21 560**	**6 842**

NOTES TO THE FINANCIAL STATEMENTS

1 Reporting entity

Magseis ASA is a public limited liability company listed on Oslo Axess and incorporated in Bærum, Norway. The address of the Company's registered office is Dicks vei 10b, 1366 Lysaker. These consolidated financial statements comprise Magseis ASA (referred to as the "Company" or "Parent") and its subsidiary (together referred to as "Magseis" or "the "Group"). The Group is primarily involved in marine seismic operations and seismic-related activities.

2.1 Basis of preparation

(a) Statement of compliance

The Parent and consolidated financial statements (together the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and their interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Board of Directors on 16 April 2015.

(b) Basis of measurement

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

(c) Going concern

The management continuously evaluates the Group's working capital using cash flow forecasts that are based on contracted work orders and anticipated backlog as well as the fixed cost base and planned investments. When concluding on the going concern assumption, management uses the cash flow forecasts for the 12 months following the release date of the financial report, as the basis.

When assessing the appropriateness of the going concern assumption various assumptions are made by management, which depend on factors beyond the Group's control, and are subject to certain risks and uncertainties. Accordingly, actual results may differ materially from those contained in forward looking statements.

The consolidated annual financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the settlement of liabilities in the normal course of business. In 2014 the Group incurred a loss after tax of USD 5.4 million and ended with a cash balance of USD 21.6 million and a working capital surplus of USD 18.2 million as at 31 December 2014.

The group has contracted backlog to mid-July 2015, however the directors are aware that additional work for the second half of 2015 and beyond will need to be secured for the Group to continue its business as budgeted which includes meeting its ongoing obligations and expansion plans.

If the Group does not secure a sufficient amount of work for the second half of 2015, the cash flows from operations will not be sufficient to cover the company's daily operations. Whilst there is inherent uncertainty regarding the outcome of securing backlog, the Board is confident, based on the current status of client dialogue and Magseis' cost-efficient position, that the Group will secure the necessary work to fund the operations and expansion of the group.

The ability of the Group to continue as a going concern, and thereby be able to pay its debts as and when they fall due, is dependent on the Group securing new customer contracts, alternatively the Group has the capacity to delay or cancel a number of expenses that are discretionary in nature including administration costs and supplier contracts that are not contractually binding, reduce headcount, or further working capital may need to be raised by additional equity or financing facilities.

(d) Functional and presentation currency

The Group changed its functional and presentation currency on 1 July 2014 from Norwegian Krone (NOK) to United States Dollar (USD). The change in functional currency was due to the change in the economic environment of the Group while the change in presentation currency has been implemented to better reflect the profile with revenues, costs and cash flows primarily generated in USD. The change in functional currency is considered to be a change in accounting policy with a retrospective effect and Magseis has presented a third statement of the financial position.

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

2.2 Basis for consolidation

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

2.3 Significant accounting judgements, estimates and assumptions

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Lease classification

The Group has entered into several lease agreements. The Group determines the classification of the lease based on an evaluation of the terms and conditions of the arrangements. This includes among others, judgements of whether the lease term constitutes a major part of the economic life of the leased asset and whether the present value of lease payments amounts to all or substantially all of the fair value of the leased asset at inception of the lease. Refer to *note 18* Leases for further information.

Capitalisation of development costs

Development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technical and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

When identifying internal indicators of impairment, the Group assesses a number of key factors. The Group's backlog, cash flow forecasts from operations and strategy will impact the value of an asset. Since Magseis seismic equipment is based on new technology, the actual compared to the intended function of a specific asset will impact the value. Management also take into account the physical condition when estimating the value of an asset.

Magseis is exposed to the economic cycle and macro-economic fluctuations, since changes in the general economic enviroment could affect the demand for seismic technology and services. This may indicate the need for impairment. To assess whether one or more external indicators of impairment are present, the Group's management continuously monitor the demand for the Group's services. Management also considers any expected changes in regulations of the industry. When assessing external indicators, management assume that its perception of current and future expectations are correct.

Useful lives of equipment and intangible assets

When the Group recognises new equipment and intangibles, the management assess the useful life of the individual equipment and intangible. A significant part of the Group's equipment and intangibles are considered unique, and management obtains information from specialists inside the organisation with the applicable expertise when assessing the useful lives. In co-operation with the specialists, management estimate the wear and other factors for different components before grouping them and de- termining their useful life.

Management uses its best estimates and assumptions when assessing the amounts that reflect the equipment's or intangible's value. Numerous internal and external factors impact the calcu- lation. Hence a change in the assumptions may have a material impact on the Group's financial position as well as profit and loss. Refer to note *13 Equipment* and *14 Intangible assets* for further information.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share- based payment transactions are disclosed in Note *17 Share- based payments.*

Provisions

Provisions are based on the management's best estimate. Provisions are reviewed at each reporting date to reflect the best estimate of liabilities.

2.4 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the Group's financial statements, unless otherwise indicated.

(a) Revenue recognition

The Group recognises revenue from rendering of services in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is based on incurred cost relative to expected total cost of a project. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

(I) Exclusive contracts

The Group performs seismic services under contract for a specific customer, whereby the seismic data is owned by that customer. Revenue can be based on various parameters, such as length of cable deployed and acquisition of source-lines. The Group recognises contract revenue as the services are performed and become chargeable to the customer on a proportionate performance basis over the term of each contract. Progress is measured in a manner generally consistent with the physical progress of the project, and revenue is recognised based on the ratio of the project's progress to date (percentage of completion), provided that all other revenue recognition criteria are satisfied.

(II) Multi-client surveys

Pre-commitment arrangements - When the Group obtains pre-funding from customers before a seismic project is completed, the customer is normally entitled to a discounted price and/or is granted the opportunity to provide input into the project parameters. As progress is made through the project plan, this physical progress is recognised as revenue based on a percentage basis of the pre-commitment funds received, provided that all other revenue recognition criteria are satisfied. Magseis classifies revenue from multi-client surveys as pre-commitment arrangements or late sales based on products sold. A seismic project may

consist of several products and at the time of the sale some products may be considered in progress while others are considered finished.

Late sales – Where the Group has finished data sets ready for sale, revenue is recognised at the time of the transaction when the customer executes a valid license agreement and has the right to access the licensed portion of the multi-client library. The customer's license payment is fixed and determinable and typically is required at the time that the license is granted. There are no late sales in 2014.

(b) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Group based on the average monthly exchange rate. Monetary assets and liabilities de- nominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Foreign currency differences arising from foreign exchange translation, are recognised in the profit or loss.

(c) Financial instruments

(I) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, restricted cash, trade and other payables and finance lease obligation.

Non-derivative financial instruments are recognised initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest rate method.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire, or the Group transfers the financial asset to another party without retaining control of substantially all of the risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligation specified in the contract expire or are discharged or cancelled.

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(II) Share capital

Ordinary shares are classified as equity. All shares have equal voting rights and equal rights to dividends. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

Items of equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.
Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Items of equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that

Artemis Athene source-line shooting at Gullfaks A *Photo: Magseis*

the asset is completed and ready for use.
Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development is considered to have a finite life and expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated over the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- Capitalised development costs 3 - 6 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(f) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The Group's provisions comprise vacation pay to employees which will be settled 1 July the year after the reporting date. The provisions carrying amount is measured at cost.

Provision is made where there is objective evidence that the Group will be unable to recover balances in full from trade and other receivables. Balances are written off when the probability of recovery is assessed as being remote.

(g) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are recognised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. For the purpose of calculating the present value, the interest rate implicit in the lease is used as the discount factor. Lease payments made under finance leases are apportioned between finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Leased assets are depreciated over the shorter of the lease term and their useful life, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position. Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(h) Impairment

(I) Financial assets

Financial assets which are valued at amortised cost are written down when it is probable that the Group will not recover all the amounts relating to contractual receivables. The amount of the impairment loss is recognised in the profit or loss as a finance cost. Any reversal of previous impairment losses is recognised when a reduction in the need to write down the asset can be related to an event after the impairment loss has been recognised. The decrease in impairment loss is reversed through profit or loss.

(II) Non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. The Group test intangible assets which are under production at the reporting date regardless of indications of impairment. An asset's recoverable amount is the higher of an asset's or a cash-generating-unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit or loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair

value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

(i) Employee benefits

(I) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(II) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service conditions at the vesting date. All grants given in 2014 include a total vesting period of up to three years.

Management believes this gives the employees incentive to be part of the organisation for a longer period. The share based payments are equity settled.

(III) Defined contribution plan

Obligations for contributions to defined contributions plans are expensed as the related service provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Group is required to maintain a pension plan in accordance with the Norwegian Pension Benefit Act. The pension plans of the Group comply with the requirements set forth in the Norwegian Pension Benefit Act.

(j) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Grants that compensate the Group for expenses incurred are offset in profit or loss in the same periods in which the expenses were originally recognised. Grants that compensate the Group for the cost of an asset are offset in balance sheet and then recognised in profit or loss as a reduced depreciation over the useful life of the assets.

(k) Finance income and finance costs

Finance income comprises interest income on funds invested and gains on foreign currency transactions that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise of interest expense, impairment losses recognised on financial assets, losses on foreign currency transactions and fair value measurement of financial transactions that are recognised in profit or loss.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes when probable. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not recognised for temporary differences from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

(m) Fair value measurement

When measuring the fair value of an asset or a liability, the management uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1:
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2:
Inputs other than quoted prices included within Level 1 that are, observable for the asset or liability either directly or indirectly.

Level 3:
Unobservable inputs for the asset or liability.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are expected to be endorsed by the EU. The following are expected to impact the financial statements:

IFRS 15 *Revenue from contracts with customers*

This standard was issued in May 2014 and covers revenue recognition and replaces current IAS 18 Revenue and IAS 11 Construction contracts as well as IFRIC 13 Customer loyalty programs, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfer of assets from customers and SIC-31 Revenue. The standard requires adoption either on a retrospective basis or on

the basis of the cumulative effect on retained earnings. Magseis is in the process of evaluating the potential impact of IFRS 15. The standard becomes mandatory for annual periods beginning on or after 1 January 2017.

IFRS 9 *Financial instruments*
The standard was issued in July 2014 and becomes mandatory for periods beginning on or after 1 January 2018. The standard replaces IAS 39 Financial instruments: Recognition and Measurement. The standard was issued as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. Magseis is in the process of evaluating its potential impact.

Amendments to IFRS 10 *Consolidated Financial statements and IAS 28 Investments in Associates and Joint Ventures*
Amendments to these standards were issued in September 2014 and becomes mandatory from 1 January 2016. The changes relates to application of consolidation exception and sale or contribution of assets between an investor and its associate or joint venture. The amendments are to be applied prospectively. Magseis has assessed that the change in these standards will have no impact on the financial statements of the Group.

Other standards and amendments to standards, issued in 2014, but not yet effective, are either not expected to impact Magseis consolidated financial statements or disclosures materially, or are not expected to be relevant for Magseis consolidated finan- cial statements upon adoption.

3. Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Group's overall risk management programme considers the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.
The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

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

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

Credit exposure as of 31 December 2014:

	GROUP	GROUP	PARENT	PARENT
In thousands of USD	Carrying amount/ fair value	Carrying amount/ fair value	Carrying amount/ fair value	Carrying amount/ fair value
Year	***2014***	***2013***	***2014***	***2013***
Financial assets				
Cash and cash equivalents	21 591	6 867	21 561	6 842
Trade receivables	7 621	9 200	7 621	9 200
Other receivables	2 027	1 301	2 263	1 308
Total	**31 239**	**17 369**	**31 445**	**17 350**

The aging of trade receivables at the reporting date was (equal for Group and Parent):

In thousands of USD	Carrying amount	Impairment	Carrying amount	Impairment
Year	*2014*	*2014*	*2013*	*2013*
Past due 0-30 days	5 755	0	9 200	0
Past due 31-120 days	1 866	0	0	0
More than 120 days	0	0	0	0
Total	**7 621**	**0**	**9 200**	**0**

During 2014, the Group has had no loss on receivables. As at 31 December 2014, the Group's and Parent's trade receivables comprise only receivables from Hess Denmark which is an international oil company with good credit history, thus no provision has been made for the receivables.

Liquidity risk

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

The Group uses cash flow forecasts, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 2-3 months. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

If the Group were to be unemployed for a longer period, it would need to manage its cost base and would, inter alia, seek to reduce costs or negotiate a grace period from some of its largest cost sources such as the time charter vessel. Management believes this, in addition to the Group's cash on demand and ability to raise additional financing, lowers the liquidity risk to a satisfactory level.

Artemis Athene in foreground during the complex operations at South Arne Field

Photo: Magseis

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

GROUP						
In thousands of USD	Carrying amount	Contractual cash flow	3 months or less	3-12 months	1-2 years	2-5 years
At 31 December 2014						
Non-derivative financial liabilities						
Trade payables	8 050	8 050	8 050	0	0	0
Other payables	2 025	2 025	1 656	369	0	0
Accrued expenses	4 203	4 203	4 203	0	0	0
Finance lease obligations	3 501	4 290	270	825	1 098	2 097
Total	**17 779**	**18 568**	**14 179**	**1 194**	**1 098**	**2 097**
At 31 December 2013						
Non-derivative financial liabilities						
Trade payables	4 335	4 335	4 335	0	0	0
Other payables	632	632	360	271	0	0
Accrued expenses	3 007	3 007	3 007	0	0	0
Finance lease obligations	4 186	5 385	270	825	1 095	3 195
Total	**12 160**	**13 358**	**7 972**	**1 096**	**1 095**	**3 195**

PARENT						
In thousands of USD	Carrying amount	Contractual cash flow	3 months or less	3-12 months	1-2 years	2-5 years
At 31 December 2014						
Non-derivative financial liabilities						
Trade payables	8 046	8 046	8 046	0	0	0
Other payables	2 261	2 261	1 892	369	0	0
Accrued expenses	4 203	4 203	4 203	0	0	0
Finance lease obligations	3 501	4 290	270	825	1 098	2 097
Total	**18 011**	**18 800**	**14 411**	**1 194**	**1 098**	**2 097**
At 31 December 2013						
Non-derivative financial liabilities						
Trade payables	4 335	4 335	4 335	0	0	0
Other payables	618	618	346	271	0	0
Accrued expenses	3 007	3 007	3 007	0	0	0
Finance lease obligations	4 186	5 385	270	825	1 095	3 195
Total	**12 146**	**13 345**	**7 958**	**1 096**	**1 095**	**3 195**

In addition to balance sheet items listed above, Magseis has entered into a 5-year time charter treated as an operating lease which has a significant impact on the liquidity risk. The remaining cash outflows the following 4 years are approx. USD 70.0 million with an equal exposure each month (Group and Parent). Refer to note *18 Leases* for further information.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Group, United States dollar (USD). The currencies in which these transactions primarily are denominated are Norwegian krone (NOK), Euro (EUR), Pound Sterling (GBP) and Swedish krona (SEK).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying forwards or options, or buying or selling at spot rates when necessary to address short- term imbalances.

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

In thousands	SEK	GBP	NOK	DKK	EUR
At 31 December 2014					
Trade payables	3 882	466	26 195	145	108
Accruals	652	301	23 857	0	19
Financial statement position exposure	**4 534**	**767**	**50 052**	**145**	**127**
Capital commitments	2 283	0	31 134	0	0
Forecast transaction exposure	**2 283**	**0**	**31 134**	**0**	**0**
Total	**6 817**	**767**	**81 185**	**145**	**127**

In thousands	SEK	GBP	NOK	DKK	EUR
At 31 December 2013					
Trade payables	563	82	16 845	0	4
Accruals	784	756	9 354	0	0
Financial statement position exposure	**1 347**	**838**	**26 199**	**0**	**4**
Capital commitments	0	0	1 056	0	227
Forecast transaction exposure	**0**	**0**	**1 056**	**0**	**227**
Total	**1 347**	**838**	**27 255**	**0**	**231**

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

	Change in exchange rate*	Effect on P&L before tax				
In thousands of USD		SEK	GBP	NOK	DKK	EUR
2014	(+) 10%	-59	-119	-673	-2	-15
	(-) 10%	59	119	673	2	15
2013	(+) 10%	-21	-138	-428	0	-1
	-10 %	21	138	428	0	1

** Plus (+) indicates depreciation and minus (-) appreciation of USD against foreign currency*

Interest rate risk

The Group currently has one short-term interest-bearing loan in addition to a finance lease where both have a constant interest rate throughout the term. The Group has interest bearing assets. Long term strategy is to place parts of the cash and cash equivalents in high interest deposits for periods to secure higher returns, while balancing the need to access funds as required.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Group manages its capital to ensure it will be able to continue as a going concern while maximising shareholder wealth and financial stability. Based on the strong organic growth, working capital requirement and large investment programs, the Group's financial strategy has been to maintain a solid equity ratio, focus on increasing cash flow from operations and hire seismic vessels rather than purchase and finance seismic vessels onto the Group's balance sheet. The Group defines its capital as equity, share capital and reserves.

Financial instruments

At 31 December 2014 and 2013 there are no differences between the carrying amount and fair value upon initial recognition for any financial assets or financial liabilities. The table below provides an overview of the carrying amounts and fair values of financial assets and financial liabilities, including their level in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Group	Group	Parent	Parent	Group and Parent
In thousands of USD	Carrying amount /fair value	Carrying amount /fair value	Carrying amount /fair value	Carrying amount /fair value	Fair value level
Year	***2014***	***2013***	***2014***	***2013***	
Financial liabilities					
Finance lease obligation	3 501	4 186	3 501	4 186	Level 2
Short-term loan	1 200	0	1 200	0	Level 2
Total	**4 701**	**0**	**4 701**	**0**	

Level 2 is defined as, assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly.

4. Operating segments

The Group is operating in one segment being geophysical surveys with respect to products and services. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole. In 2014 the Group's operating revenue relates to OBS acquisition for Statoil, Talisman, Hess and a multi-client survey with pre-funding from Lundin.

5. Revenue and other income

In thousands of USD	Group	Group	Parent	Parent
Year	***2014***	***2013***	***2014***	***2013***
Revenue and other income				
Contract revenue	56 189	12 239	56 189	12 239
Multi-client revenue	417	0	417	0
Management fee	0	0	19	5
Total revenue and other income	**56 606**	**12 239**	**56 625**	**12 244**

6. Operating expenses

In thousands of USD	Group	Group	Parent	Parent
Year	***2014***	***2013***	***2014***	***2013***
Cost of sales				
Charter hire	17 253	4 140	17 253	4 140
Crew cost	9 813	2 866	9 813	2 866
Fuel costs	4 880	1 178	4 880	1 178
Consultants	197	611	197	611
Batteries	1 750	282	1 750	282
Other cost of sales	5 324	808	5 324	808
Total	**39 217**	**9 885**	**39 217**	**9 885**
Research and development expenses				
Corporate and consultant costs	1 591	1 378	1 591	1 378
Total	**1 591**	**1 378**	**1 591**	**1 378**
Selling, general and administrative costs				
Salary and social expenses	5 740	3 152	5 724	3 149
Administrative expenses	2 027	1 661	2 027	1 661
Total	**7 767**	**4 813**	**7 751**	**4 810**
Salary and social expenses				
Salary	3 817	1 672	3 812	1 671
Social security tax	596	386	596	386
Pension	212	149	201	149
Equity-settled share-based payment transactions	1 100	901	1 100	900
Other payments	15	44	15	44
Total	**5 740**	**3 152**	**5 724**	**3 149**

The Group has been awarded a grant from SkatteFUNN in 2014 relating to further development of MASS and a deep water project. The grant of USD 166 thousands was offset against capital- ised cost related to these projects. The company did not receive
any grants in 2013. The average number of onshore employees during 2014 and 2013 were 26 and 23, respectively. In addition the company employ 40 seismic crew personnel.

Details of the expenses to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

KPMG Auditors' remuneration				
In thousands of USD	Group	Group	Parent	Parent
Year	*2014*	*2013*	*2014*	*2013*
Audit services				
Audit of annual financial statements	64	130	64	130
Other services				
Other assurance services	**55**	**38**	**55**	**38**
Total	**118**	**168**	118	168

7. Finance income and cost

In thousands of USD	Group	Group	Parent	Parent
Year	*2014*	*2013*	*2014*	*2013*
Interest income	242	640	242	640
Currency gains	3 542	19	3 498	19
Total finance income	**3 784**	**659**	**3 740**	**659**
Interest expense	45	2	45	2
Currency losses	4 510	426	4 500	426
Finance charges payable under finance lease	410	114	410	114
Fair value adjustment convertible loan	549	0	549	0
Total finance cost	**5 514**	**542**	**5 504**	**542**

8. Cash and cash equivalents

In thousands of USD	Group	Group	Parent	Parent
Year	*2014*	*2013*	*2014*	*2013*
Unrestricted cash balances	21 412	6 696	21 380	6 671
Employee tax withholding accounts	180	171	180	171
Cash and cash equivalents	**21 591**	**6 867**	**21 560**	**6 842**

9. Other current assets

In thousands of USD	Group	Group	Parent	Parent
Year	*2014*	*2013*	*2014*	*2013*
Prepayments	430	469	420	465
Deposits	118	144	118	144
VAT receivable	1 106	688	1 106	687
Intercompany receivables	0	0	241	12
Other receivables	916	0	916	0
Fuel stock	848	1 133	848	1 133
Battery stock	1 106	614	1 106	614
Total other current assets	**4 524**	**3 047**	**4 756**	**3 054**

10. Income tax

In thousands of USD	Group 2014	Group 2013	Parent 2014	Parent 2013
Current tax expense				
Current period	0	0	0	0
Total	**0**	**0**	**0**	**0**
Deferred tax expense				
Origination and reversal of temporary differences	-193	-733	-193	-733
Benefit of tax losses and other deferred tax benefits not recognised	193	733	193	733
Total	**0**	**0**	**0**	**0**
Numerical reconciliation between tax expense and pre-tax accounting profit				
Profit / (loss) before tax	**-5 379**	**-8 695**	**-5 403**	**-8 692**
Income tax at rate of 27% (2013: 28%)	-1 452	-2 435	-1 459	-2 434
Non-deductible expenses	3	9	3	9
Non-assessable income	0	-2	0	-2
Losses (recognised) / not recognised	1 449	2 428	1 456	2 427
Total income tax expenses / (benefit)	**0**	**0**	**0**	**0**

The Group and Parent have unutilised tax losses of USD 19.1 million (2013: USD 16.0 million) available to be offset against future taxable income. The deductible temporary difference and tax losses do not expire under current tax legislation. The net deferred tax asset for the Group and Parent has not been recognised on the basis that it does not meet the criteria for asset recognition as the Group currently cannot document that the future taxable income can be utilised against available tax losses. Effective from 1 January 2014 the Norwegian corporate income tax rate was reduced from 28 percent to 27 percent.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following, and none have been recognised:

In thousands of USD	Group 2014	Group 2013	Parent 2014	Parent 2013
Non-current assets	2 827	2 536	2 827	2 536
Current assets	0	0	0	0
Non-current liabilities	-1 442	-1 757	-1 442	-1 757
Current liabilities	-440	-26	-440	-26
Tax loss carry-forwards	-5 147	-4 283	-5 147	-4 283
Tax (assets) liabilities	-4 202	-3 530	-4 202	-3 530
Set off of tax	4 202	3 530	4 202	3 530
Net tax (assets) liabilities	0	0	0	0

11. Other current liabilities

In thousands of USD	Group	Group	Parent	Parent
Year	***2014***	***2013***	***2014***	***2013***
Other payables	437	326	424	313
Accrued expenses	3 776	3 007	3 776	3 007
Current portion of deferred gain on sale and leaseback	18	18	18	18
Current portion of deferred lease discount	453	438	453	438
Intercompany payables	0	0	247	
Short-term loan	1 200	0	1 200	0
Provisions holiday pay	369	271	369	271
Loss provision multi-client project	429	0	429	0
Total other current liabilities	**6 681**	**4 060**	**6 915**	**4 047**

Short-term loan

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

12. Multi-client survey

From the end of December 2014 to mid-January 2015, Magseis conducted a multi-client project in the Barents Sea which includ- ed pre-funding from Lundin Norway AS. Poor weather resulted in a longer duration of the Lundin project as well as cancellation of more planned multi-client acquisition in the same area. As a con- sequence the total cost related to the Lundin multi-client project exceeded the total revenue from pre-funding and expected late sales and therefore Magseis was required to account for the net loss of the project.

Based on the percentage of completion method and a 48% com- pletion as at 31 December 2014, Magseis has recognised reve- nue of USD 0.4 million and cost of USD 1.1 million. In addition Magseis has recognised a loss provision of USD 0.4 million. Due to the net loss no cost has been capitalised and hence there is no multi-client library asset recorded in the balance sheet.

13. Equipment

All equipment is recognised in the Parent, thus, there are no differences between the Group and the Parent.

In thousands of USD	Office machines	Seismic equipment	Seismic equipment under finance lease	Under construction	Total
Cost					
Balance at 1 January 2013	123	665	0	6 739	7 527
Asset completed and ready for intended use	0	36 969	0	-36 969	0
Additions	93	0	4 254	33 915	38 262
Disposals	0	-4 872	0	0	-4 872
Adjustment currency conversion	-14	-1 147	-145	-469	-1 775
Balance at 31 December 2013	**202**	**31 615**	**4 109**	**3 216**	**39 142**
Balance at 1 January 2014	202	31 615	4 109	3 216	39 142
Additions	124	4 281	0	13 280	17 685
Disposals	0	0	0	0	0
Impairment	0	-888	0	-293	-1 181
Adjustment currency conversion	-2	-355	-46	-36	-439
Balance at 31 December 2014	**324**	**34 653**	**4 063**	**16 167**	**55 207**
Depreciation					
Balance at 1 January 2013	34	45	0	0	79
Depreciation for the year	59	1 652	206	0	1 917
Disposals	0	-129	0	0	-129
Adjustment currency conversion	-5	-56	-7	0	-68
Balance at 31 December 2013	**88**	**1 512**	**199**	**0**	**1 799**
Balance at 1 January 2014	88	1 512	199	0	1 799
Depreciation for the year	83	6 275	786	0	7 144
Disposals	0	0	0	0	0
Impairment	0	-62	0	0	-62
Adjustment currency conversion	-1	-17	-2	0	-20
Balance at 31 December 2014	**170**	**7 708**	**983**	**0**	**8 861**
Carrying amounts					
at 1 January 2013	89	620	0	6 738	7 447
at 31 December 2013	**114**	**30 103**	**3 910**	**3 216**	**37 343**
at 1 January 2014	114	30 103	3 910	3 216	37 343
at 31 December 2014	**154**	**26 945**	**3 080**	**16 167**	**46 346**

Impairment

Magseis has during 2014 recorded an impairment of USD 1.1 million whereof USD 1.0 million relates to equipment damage in the "shakedown period". The value of the damaged equipment constitutes 2% of the value of the Company's self-developed MASS equipment. Considering the introduction of new technology in challenging surroundings in the North Sea during the winter season, Magseis assesses 2% as a reasonable level.

Capitalisation

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

Seismic equipment under financial lease

In 2013 the Group entered into a sale and leaseback agreement for some of its seismic equipment. The lease is classified as a finance lease and the initial recognition is based on the present value of the minimum lease payments at the inception of the lease agreement. The equipment is depreciated on a straight-line basis over 5 years and 2 months which equals the lease term. Refer to note 18 *Leases* for further disclosures of the sale and leaseback agreement.

14. Intangible assets

Intangibles are recognised in the Parent, thus, there are no differences between the Group and the Parent.

In thousands of USD	Group	Group
Year	***2014***	***2013***
Cost		
Balance at 1 January	2 321	2 185
Additions	225	332
Disposals	0	0
Adjustment currency conversion	-28	-196
Balance at 31 December	**2 518**	**2 321**
Amortisation		
Balance at 1 January	116	0
Amortisation for the year	464	120
Disposals	0	0
Adjustment currency conversion	-1	-4
Balance at 31 December	**579**	**116**
Carrying amounts		
at 1 January	2 205	2 185
at 31 December	**1 939**	**2 205**

Development costs

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

15. Share capital and reserves

Share capital issued

Ordinary shares - Issued and fully paid		Number of shares	Share capital USD '000	Share premium reserve USD '000
At 1 January 2013		1 053 299	186	60 026
At 31 December 2013		**1 053 299**	**186**	**60 026**
At 1 January 2014		1 053 299	186	60 026
10 April. 14	Placement of 254,274 at 475 NOK per share	254 274	42	20 121
28 May. 14	Share split - 20 for 1	26 151 460	0	0
06 June. 14	4.02 million USD loan converted for 1,011,101 at 23.75 NOK per share	1 011 101	9	4 542
	Capital raising costs	0	0	-934
At 31 December 2014		**27 162 561**	**237**	**83 755**

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

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

20 LARGEST SHAREHOLDERS AS AT 9 APRIL 2015		
Shareholder	**Holdings**	
WESTCON GROUP AS	5 001 920	18.41 %
GEO INNOVA AS	3 515 780	12.94 %
ANFAR INVEST AS	3 285 060	12.09 %
CLIPPER A/S	1 360 000	5.01 %
BARRUS CAPITAL AS	1 223 740	4.51 %
J.P. MORGAN CHASE BANK N.A. LONDON	1 011 101	3.72 %
GNEIS AS	904 280	3.33 %
OP-EUROPE EQUITY FUND	853 340	3.14 %
VARMA MUTUAL PENSION INSURANCE	700 000	2.58 %
VPF NORDEA KAPITAL	658 200	2.42 %
APM INVEST AS	640 800	2.36 %
STOREBRAND VEKST	602 241	2.22 %
KLP AKSJE NORGE VPF	552 250	2.03 %
STOREBRAND NORGE I	543 198	2.00 %
MP PENSJON PK	484 020	1.78 %
VPF NORDEA	436 000	1.61 %
INVESCO PERP EUR SMALL COMP FD	400 000	1.47 %
KOMMUNAL LANDSPENSJONSKASSE	366 010	1.35 %
BARCLAYS BANK PLC	324 820	1.20 %
INVESCO FUNDS	270 000	0.99 %
Total 20 largest shareholders	**23 132 760**	**85,16 %**
Other shareholders	4 029 801	**14,84 %**
Total outstanding shares	**27 162 561**	**100,00 %**

16. Earnings per share

Group		
Year	*2014*	*2013*
Basic earnings / (loss) per share*	**-0.21**	**-0.41**
Diluted earnings / (loss) per share**	**-0.21**	**-0.41**
Reconciliation of earnings used in calculating earnings / (loss) per share		
In thousands		
Basic earnings / (loss) per share		
Profit / (loss) for the year	-5 379	-8 695
Weighted average number of ordinary shares outstanding	25 033	21 066
Diluted earnings / (loss) per share		
Profit / (loss) for the year	-5 379	-8 695
Weighted average number of ordinary shares outstanding (diluted)	25 170	21 886

** The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding.*

*** The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares*

Earnings per share are calculated by dividing the result for the year before any minority interests by a weighted average of the outstanding issued shares during the year. Weighted average number of outstanding shares is calculated by dividing the numbers of shares during the year after changes done in each quarter with corresponding numbers of days a year. The parent company conducted a share split in May 2014 which is adjusted or in the comparatives from 2013.

17. Share-based payments

Description of the share-based payment arrangements

At 31 December 2014 the Group has the following share-based payment arrangements:

Share based payment plan (equity-settled)

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

Share option programs

2013

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life of options
As of 1 January 2013	300 920		2.11
Option grant to key management on 13 March 2013	875 600	*20% vested on 13 March 2014, 30% vested on 13 March 2015 and 50% vest on 13 March 2016*	3.20
Option grant to key management on 16 July 2013	210 000	*20% vested on 16 July 2014, 30% vest on 16 July 2015 and 50% vest on 16 July 2016*	3.54
Option grant to key management on 16 October 2013	96 000	*20% vested on 16 October 2014, 30% vest on 16 October 2015 and 50% vest on 16 October 2016*	3.79
As of 31 December 2013	**1 482 520**		

2014

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life of options
As of 1 January 2014	1 482 520		2.14
Option grant to key management on 31 March 2014	60 000	*50% vest on 31 March 2016 and 50% vest on 31 March 2017*	3.25
Option grant to key management on 1 May 2014	30 000	*20% vest on 1 May 2015, 30% vest on 1 May 2016 and 50% vest on 1 May 2017*	3.33
Option grant to key management on 15 May 2014	20 000	*20% vest on 15 May 2015, 30% vest on 15 May 2016 and 50% vest on 15 May 2017*	3.37
Option grant to key management on 1 June 2014	100 000	*20% vest on 1 June 2015, 30% vest on 1 June 2016 and 50% vest on 1 June 2017*	3.42
As of 31 December 2014	**1 692 520**		

Reconciliation of outstanding share options

The number and weighted average exercise prices of share options are as follows:

Prices in USD	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Year	***2014***	***2014***	***2013***	***2013***
Outstanding at 1 January	2.71	1 482 520	2.85	300 920
Forfeited during the period		0	0	0
Exercised during the period		0	0	0
Granted during the period	3.28	210 000	3.44	1 181 600
Outstanding at 31 December		**1 692 520**		**1 482 520**
Exercisable at 31 December	2.55	409 940	2.37	97 260

The options outstanding at 31 December 2014 have an exercise price in the range of USD 1.30 to USD 3.36 and a weighted average contractual life of 2.29 years. The Group recognised a share-based payment expense of USD 1.1 million in the period ended 31 December 2014 (2013: USD 0.9 million) in relations to share options issued.

Inputs for measurement of grant date fair values

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

The inputs used in the measurement of the fair values at grant date of the 2014 share-based payment plans are the following:

Prices in USD				
Fair value of share options and assumptions	***01 June 2014***	***15 May 2014***	***01 May 2014***	***31 March 2014***
Fair value at grant date (weighted average)	1.73	1.64	1.64	1.70
Share price at grant date	3.36	3.20	3.20	3.20
Exercise price	3.36	3.20	3.20	3.20
Expected volatility	75.00 %	75.00 %	75.00 %	75.00 %
Option life (years)	4.00	4.00	4.00	4.00
Expected dividends	0	0	0	0
Risk-free interest rate (weighted average)	1.69 %	1.74 %	1.78 %	1.80 %

18. Leases

Operating leases

In October 2013 the Group entered into a non-cancellable vessel lease with Westcon Group (related party). The lease term is 5.25 years with an option for a 2 year extension. At 31 December 2014 the remaining life of the lease is 4.0 years. For the first 3 months of the lease, the Group paid a discounted rate which is recognised as a reduction to the operating lease expense on a straight line basis over the lease term. The balance of this deferred lease discount is USD 1.8 million at 31 December 2014 (2013: USD 2.3 million). The Group has entered into two leases on commercial property. The leases are non-cancellable operating leases and have average remaining lives of 2.0 and 4.25 years.

Future minimum lease payments under non-cancellable operating leases are as follows:

Future minimum lease payments		
In thousands of USD	**31 December 2014**	**31 December 2013**
Less than one year	17 523	17 384
Between one and five years	52 469	69 379
More than five years	0	0
Total	**69 992**	**86 762**

Operating lease cost expensed in profit and loss		
In thousands of USD	**31 December 2014**	**31 December 2013**
Time charter leases	17 253	4 121
Office leases	497	255
Total	**17 750**	**4 376**

Finance lease

In 2013, the Group entered into a sale & leaseback agreement with Westcon Group (related party) regarding some of its seismic equipment. The lease term is 5 years and 2 months which reflects the leased assets economic life. The interest rate implicit in the lease (yearly effective interest rate) is 10.6%. The sale resulted in a gain of NOK 0.6m which is amortised on a straight-line basis over the lease term.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

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

Refer to note 20 *Related parties* for further information about leases with related parties.

19. Capital commitments

Future minimum payments relating to equipment are as follows:

Equipment *In thousands of USD*	31 December 2014	31 December 2013
Contracted but not yet provided for and payable:		
Within one year	9 741	6 834
One year later and no later than five years	1 039	0
Later than five years	0	0
Total	**10 779**	**6 834**

Capital commitments relates to seismic equipment for upgrade of Artemis Athene and investments in long-term strategic equipment.

20. Related parties

Shares and options held by members of the Board and management, as at 31 December

Name	Position	Shares		Share options	
Period		*31 December 2014*	*31 December 2013*	*31 December 2014*	*31 December 2013*
A Farestveit	Chairman, Non-Executive	3 605 460	3 424 460	160 000	160 000
N Matre (Westcon Group)	Non-Executive Director	5 001 920	4 033 500	0	0
J B Gateman	Director and Senior Vice President	3 515 780	3 494 740	160 000	160 000
B R Bachman	Non-Executive Director	1 011 101	0	0	0
M Thjømøe	Non-Executive Director	0	0	0	0
I Gimse	Chief Executive Officer	904 280	895 860	250 000	220 000
M Ektvedt	Chief Financial Officer	0	0	266 580	206 580
Bjørn Jensen	Chief Operating Officer	0	0	100 000	0
Total		**14 038 541**	**11 848 560**	**936 580**	**746 580**

Key management personnel and director transactions

A number of key management persons and board members, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with management persons, board members and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances related to key management personal, board members and entities over which they have control or significant influence were as follows:

In thousands of USD	*Transactions*	*Note*	Transaction value		Balance outstanding	
Year			*31 December 2014*	*31 December 2013*	*31 December 2014*	*31 December 2013*
Name						
J B Gateman	Consultant costs	(I)	214	229	58	64
N Matre/Westcon Group	Leases	(II)	19 007	4 382	3 478	1 494
N Matre/Westcon Group	Other services	(III)	1 147	332	355	5
Total			20 368	4 943	3 891	1 563

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

(II) Relates to a time charter (TC) and a sale and leaseback arrangement. As part of the TC agreement Westcon Group also delivers Marine Management services. In 2014 this cost amounts to USD 0.5 million. As at 31 December 2014 the remaining time charter lease terms is 4 years and the sale and leaseback is 3 years and 11 months.

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

For further information, refer to note *17 Leases*.

Transactions with subsidiary (Parent)

During 2014 and 2013 Magseis ASA has transacted with its subsidiary Magseis Operations AS. The terms and conditions of the transactions between Group companies were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions non-related entities on an arm's length basis. The table below sets out the transaction value and outstanding balance as at 31 December:

In thousands of USD	*Transactions*	*Note*	Transaction value		Balance outstanding	
Year			*31 December 2014*	*31 December 2013*	*31 December 2014*	*31 December 2013*
Name						
Magseis Operations AS	Purchased crew services/liability	(I)	247	119	247	119
Magseis Operations AS	Sold accounting services/receivable	(II)	-24	-7	-240	7
Total			223	112	7	126

(I) During 2014 and 2013 Magseis Operations AS has hired crew personnel to Magseis ASA. For these services Magseis Operatons AS has used a cost-plus method with a mark-up of 5%.

(II) Magseis ASA has during 2014 and 2013 provided accounting services to Magseis Operations AS. For these services Magseis ASA has used a cost-plus method with a mark-up of 5%.

MANAGEMENT REMUNERATION					
In thousands of USD		Remuneration	Options	Pension	Total
2014					
Name	*Position*				
I. Gimse	Chief Executive Officer	235	143	12	390
M. Ektvedt	Chief Financial Officer	222	118	11	351
B. Jensen	Chief Operating Officer	109	51	7	167
J.B. Gateman	Senior Vice President	0	90	0	90
Total		**566**	**402**	**30**	**998**
2013					
I. Gimse	Chief Executive Officer	217	142	12	371
M. Ektvedt	Chief Financial Officer	222	110	11	343
J.B Gateman	Senior Vice President	0	115	0	115
Total		**439**	**367**	**23**	**830**

Severance pay

The chief executive officer is entitled to a severance pay equivalent to three months' salary, commencing at the end of the notice period, when the resignation is at the request from the Company. Any other payment earned during this period will be fully deducted.

REMUNERATION BOARD OF DIRECTORS AND NOMINATION COMMITTEE			
In thousands of USD		2014	2013
Name	*Position*		
Board of director's			
A Farestveit	Chairman	27	0
J B Gateman	Board member	22	0
N Matre	Board member	22	0
B R Bachman	Board member	22	0
M Thjømøe	Board member	22	0
Nomination committee			
A Farestveit	Chairman	2	0
J Bleie	Committee member	2	0
Total		**119**	**0**

21. Investments in Subsidiary

Magseis ASA owns 100% of the shares (and voting rights) in Magseis Operations AS. The investment's carrying amount is USD 8 thousands and is based on historical cost. The subsidiary delivers crew services to Magseis ASA and ended with a profit of USD 25.0 thousand in 2014. As at 31 December 2014 Magseis Operations AS´ equity was USD 29.9 thousand. The subsidiary shares offices with Magseis ASA at Lysaker, Norway.

22. Subsequent events

Magseis started 2015 by completing a smaller 2D multi-client survey over the Gotha prospect in the Barents Sea. In late January and February Artemis Athene conducted a 3D pilot survey for Saudi Aramco in the Red Sea through a partnership with BGP (China's largest seismic company). The pilot was successful and qualifies Magseis to participate tenders for upcoming work in the area. During the second half of March 2015 Artemis Athene has been in dock to conduct a 5-year classing as well as to complete the 1,500 sensor upgrade which significantly increases the Athene's capacity.

In March Magseis ASA established a new subsidiary in Singapore, Magseis Singapore Services Pte Ltd. The company will employ seismic crew and provide crew services to the Group's operations.

On April 1 Magseis commenced work for Chevron on the UK sector of the North Sea. The expected duration of the survey is approximately 100 days.

KPMG AS
P.O. Box 7000 Majorstuen
Sørkedalsveien 6
N-0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the Annual Shareholders' Meeting of Magseis ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Magseis ASA, which comprise the financial statements of the parent company Magseis ASA and the consolidated financial statements of Magseis ASA and its subsidiary. The parent company's and the consolidated financial statements comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Magseis ASA and of Magseis ASA and its subsidiary as at 31 December 2014, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility

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

Opinion on Accounting Registration and Documentation

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

Oslo, 16 April 2015
KPMG AS

Lone Frogner

Lone Frogner
State authorised public accountant