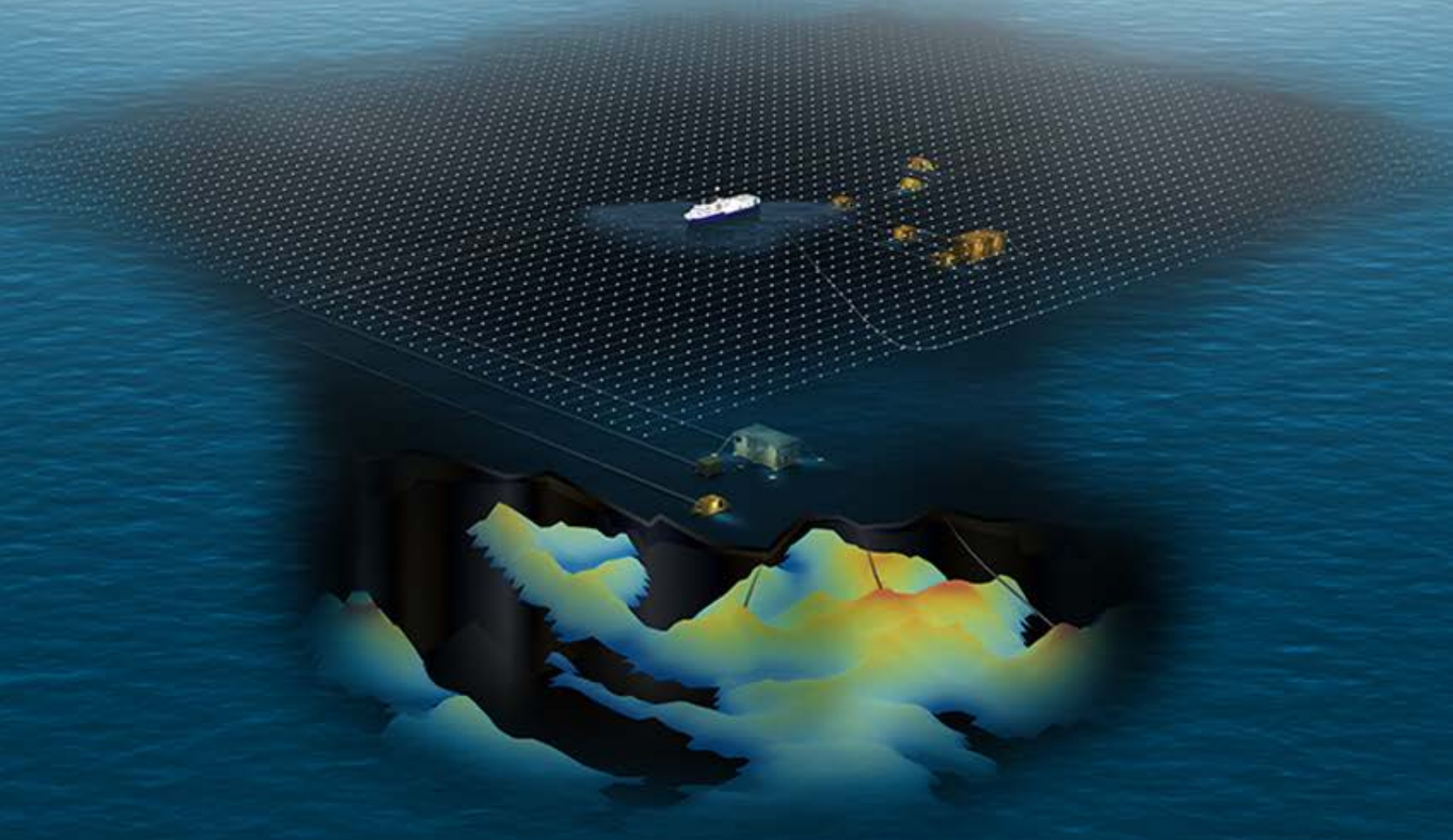
ANNUAL REPORT 2016

Magseis ASA



magseis

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MAGSEIS AT A GLANCE

- Magseis is a geophysical company established in 2009, which has introduced a new and more efficient ocean bottom seismic ("OBS") system to the global seismic market.
- Our proprietary Marine Autonomous Seismic System ("MASS") has since its introduction rapidly established itself as the preferred technical and commercial choice among some of the world's leading oil and gas companies. We aim to use this competitive advantage to drive down acquisition costs and create an industry leading global seabed seismic company.
- The Company´s headquarters is located in Oslo. In addition, we have offices in Bergen, Stockholm and Singapore.
- 83 employees support our ambitions around the world every day.
- Geared up for significant growth in 2017.

HIGHLIGHTS

- Successfully completed our first large-scale 4D survey with a "rolling" operation for Petronas on the Bokor field in Malaysia
- Introduced our second generation electronics (G2) and expanded our capacity to 350km of cable in order to start work on our most complex project to date, Saudi Aramco's S-78 project
- Raised NOK 100m of new equity and USD 9.1m of external debt financing from Export Credit Norway and Innovation Norway
- Revenue of USD 58.9 million compared to USD 40.7 million in 2015
- EBITDA of USD 8.5 million compared to USD -2.3 million in 2015
- EBIT of USD -11.1 million compared to USD -15.6 million in 2015
- Net Income of USD -16.7 million compared to USD -16.5 million in 2015

CEO COMMENT

2016 represented a year of transition for Magseis, we upgraded our MASS technology from generation 1 to generation 2 with significant improvements in data downloading speed and battery life time. We moved from a single vessel operation to a two vessels operation with a rolling spread and 4000 sensors in Malaysia and expanded this to a 350km cable spread in the Red Sea. Finally we secured work for Conoco Phillips with a new ROV-based crew and we are currently preparing the organisation to run two operations by the summer of 2017.

Financially, the first half of 2016 was difficult with low rates and operational challenges in Malaysia, but we proved our ability to operate our new technology in very large spreads in an area with significant infrastructure and a lot of vessel activity. This experience was vital for the operational excellence we saw in the Red Sea during the second half of the year. This operational performance demonstrates the robustness of our technology and our ability to be profitable even with just one vessel in operation. Our partner, BGP and Saudi Aramco are very pleased with the quality of our work and this resulted in the award of the Burqan extension in March 2017.

With our unique and robust technology, strong operational performance and good financial results, Magseis is in an excellent position for future growth and well-positioned to capture a significant part of an expanding OBS market. Building on this we initiated a program to raise additional growth financing and this has received strong support from both existing shareholders as well as potential new investors. As a result, I'm convinced that with the quality of our staff and availability of new resources and good suppliers we will be able to build a very strong company that will have the ability to run 4-6 independent operations by 2018.

We have also demonstrated our ability to work with our customers to further reduce the cost of OBS acquisition and the successful live test of the Node Deployer, supported by Shell, demonstrates our ability to continue to innovate and implement new technology. Our Smart Operation with ConocoPhillips has attracted interest from many other companies and will form a new standard in the industry where we have taken the lead.

Finally, we have completed another year without serious incidents and will continue to improve our QHSE system to operate in a sustainable and safe manner for all our stake holders. To offer a safe working environment is essential to our employees and a requirement from our customers, we all share the responsibility of a continuous focus on this.

The next stage on our journey has started.

Idar Horstad
CEO Magseis

KEY FINANCIALS

Profit and loss *In thousands of USD*	**Group 2016**	**Group 2015**	**Parent 2016**	**Parent 2015**
Revenues	58 905	40 671	39 122	39 060
Cost of sales	39 038	31 427	20 074	30 501
EBITDA	8 506	-2 347	8 249	-3 046
EBIT	-11 114	-15 637	-11 369	-16 336
Net profit	-16 695	-16 510	-13 246	-16 997
Basic earnings per share	-0.48	-0.58		
Financial position				
Total assets	86 665	72 830	74 890	71 435
Total liabilities	37 620	19 169	22 883	18 262
Total equity	49 045	53 661	52 007	53 174
Equity ratio	56.6%	73.7%	69.4%	74.4%
Cash flow				
Net cash flow from operating activities	-2 117	-3 625	-14 503	-3 634

CTO COMMENT

In 2016, we have continued to develop the MASS nodes and how we operate them to achieve the long-term goal of Magseis: To reduce the cost of ocean bottom seismic surveys by operating a large number of nodes effectively and smart.

The Bokor survey in Malaysia was the first where we rolled the spread on the seabed. This is an operational mode which reduces the overlap shooting greatly and hence reduces the time and cost of the survey. The enabling functionality was developed by our very capable software team and introduced to operations in very short time. The survey was also the first where we operated our second generation node electronics in large scale, also known as MASS I G2.

Before the S78 survey in the Red Sea, we upgraded all the nodes on Artemis Athene to G2. In addition, the battery lifetime was further improved to more than 65 days continuous recording. Another improvement which was launched for S78 was the support for an operation where parts of the nodes are deployed and recovered continuously on the cable from Artemis Athene while other parts of the nodes are deployed and recovered by other vessels and in batches.

At the SEG industry conference in Dallas in October, the first live MASS III node was displayed. MASS III is based on the same sensors, electronics and software as MASS I, but it is intended to be deployed on a stand-alone basis rather than inserted into a cable. The node can be deployed either with an ROV or with the ultra-deep deployment system which is in development together with Shell. MASS III contains twice as many batteries as MASS I and can record continuously up to 150 days. Testing and qualification will be completed during 2017.

During the autumn of 2016, a pilot test of the ultra-deep node deployment system was completed successfully in 1200 m water depth. The system has been developed to deploy nodes in water depths down to 3000 m with very high precision and speeds up to 2 knots. The test results indicate that the deployment capacity may be as high as 3-5 times that of a conventional ROV deployment, and that the nodes can be deployed with much denser inline spacing than what is feasible with ROVs. Development of remaining low-risk systems will continue in 2017 with commercialisation planned for 2018.

Towards the end of 2016, preparations were made with key strategic suppliers to supply 2500 new nodes for the Conoco-Phillips survey which will start on June 1, 2017. With these nodes, the total node inventory will be 8000, all with the second generation electronics. The survey on the Eldfisk field will be done with conventional ROVs, for which we have designed 2 ROV skids with capacity to carry 40 nodes each. These high-capacity skids will enable a very competitive conventional ROV operation.

During 2017, we will deliver on Magseis' growth plans. This includes building a total node inventory up towards 20000 nodes as well as the engineering of a high capacity cable vessel #2 which can operate up to 10000 nodes and 1000 km of cable. As part of our strategy for reducing the cost of OBS, we will also continue a number of cost-reducing initiatives for our MASS system. Together with commercialization of the MASS III node, we firmly believe that 2017 will be another great year in the development of Magseis.

NIls Halvor Heieren
CTO Magseis

COO COMMENT

2016 has been a fantastic year for Magseis from an operational point of view, a year which clearly has paved the way for the growth path that we are now embarking on.

At the beginning of the year we started on a very complex job offshore Malaysia where we conducted our very first multi vessel operation conducting an 8 roll 2 "rolling patch" operation whereby the Artemis Athene did the cable handling while the source effort was a combined effort between the Artemis Athene and the Artemis Atlantic, which was mobilised for the project. With the very dense receiver sampling (25m inline node separation) the total survey area was comprised of more than 36 000 node locations. This is a record high for Magseis and only made possible thanks to a formidable effort by our offshore crew, in combination with a very high degree of automation and robotised handling systems.

Following the completion of the survey offshore Malaysia, we embarked on an even bigger challenge, this time in the Red Sea. Prior to commencing the acquisition offshore Saudi Arabia, all our nodes were upgraded to our generation 2 electronics (MASS 1 G2), allowing us to more than double the battery life time and hence giving us the ability to operate very large OBS spreads, in this case up to 350 km of active cable.

The Saudi Arabia, Red Sea survey is conducted in close co-operation with the Chinese geophysical company BGP and the joint operation has shown a steady increase in operational efficiency as we have learnt to master the challenging local conditions with extreme seafloor topography. This is merely one of the areas where the robustness and flexibility of the MASS OBS acquisition system has proven to be a vital feature allowing Magseis to deliver affordable, very high quality OBS data even in the most challenging environments.

Our ability to deliver a highly efficient operation and high-quality product has now earned us a significant extension to the initial survey, building a backlog for the Artemis Athene through most of 2017.

Furthermore, it has given us the confidence required to take the next step towards significantly expanding our capacity. The confidence results from a combination well proven technology, paired with the operational experience gained through both last year's surveys as well as our earlier jobs conducted in the North Sea and the Barents Sea.

The first step will be the acquisition of an Ocean Bottom Node survey on behalf of ConocoPhillips scheduled to start in June 2017. This is another good example where our MASS technology allows us to break new ground when it comes to acquisition methodology. Our very compact MASS acquisition system gives us the opportunity to utilise resources and infrastructure already on charter to our client which again keeps the overall cost down. Through building this fully mobile and compact OBN acquisition system we will be able to offer our clients a very flexible and affordable high quality 4D/reservoir monitoring tool, fit for purpose and scalable to meet their needs.

The other result from the experience gained and achievements made in 2016 is our second cable crew that is now maturing as a project within Magseis. The first steps have already been taken towards what will form the second half of the "toolbox" required to meet our long-term goal of significantly lowering the OBS acquisition cost. Our clear ambition is to lower this to levels where OBS is adapted as the seismic acquisition method of choice in a much larger scale than what is currently the case.

This is well within reach and pairing our next cable vessel with our proprietary MASS technology will give Magseis a complete "toolbox" allowing us to establish a leading position in the OBS market.

Bjørn Jensen
COO Magseis

THIS IS MAGSEIS

Magseis ASA is a Norwegian geophysical company founded in 2009 providing Ocean Bottom Seismic (OBS) Services. Magseis offers large scale and step-changing efficiencies to Ocean Bottom Seismic acquisition services to clients world-wide using its proprietary Marine Autonomous Seismic System (MASS).

MASS consists of ultra-compact 4C sensor capsules, fully automated handling systems and data download.

The lightweight nodes rated from 0 to 3000 m water depth enables unlimited number of nodes and increase the size of the receiver spread deployed on the seabed.

DIRECTORS

Jan P. Grimnes
Chairman
Non-executive

Jan B. Gateman
Director &
Senior Vice President

Bettina R. Bachmann
Director
Non-executive

Jan M. Drange
Director
Non-executive

EXECUTIVE MANAGEMENT

Idar Horstad
CEO

Mikkel Ektvedt
CFO

Bjørn Jensen
COO

Nils Halvor Heieren
CTO

Ivar Gimse
SVP Business Development

Jan B. Gateman
SVP R&D

Susan Penty
VP QHSE

Petter Steen Hansen
VP Sales & Marketing

Carl R. Berg
Chief Geophysicist

BOARD OF DIRECTORS REPORT

FINANCIAL REVIEW

Magseis has functional and presentation currency for the Group and Parent in USD.

Revenues

The Group's revenues were USD 58.9 million of which USD 1.8 million relates to a multi-client survey and the rest relates to ordinary exclusive contract surveys. In 2015, the revenue amounted to USD 40.7 million with USD 5.8 million related to multi-client revenue. The increase is mainly due to a combination of higher utilization and higher rates for the Company's services.

The Parent company's revenues were 39.1 million of which USD1.8 million relates to a multi-client survey and USD 37.3 million relates to Intercompany revenues. 2015 revenues were at a comparable level of USD 39.1 million of which USD 5.8 million related to a multi-client survey USD 1.5 million, related to Intercompany revenues, and the rest related to ordinary exclusive contract surveys.

Operational costs

The Group's cost of sales amounted to USD 39.0 million in 2016 and mainly contains cost related to vessel operations such as time charter, fuel cost and crew cost. In 2015 cost of sales amounted to USD 31.4 million. The increase is mainly related to higher utilisation and the percentage of exclusive contract work compared to 2015 where costs related to the Tåkehavet multi-client survey were capitalised.

The Parent's cost of sales amounted to USD 20.1 million in 2016 as a result of no seismic acquisition contracts being entered into by the parent company. The Parent's cost of sales for 2015 are at the same level as the Group, except for 14 days in December 2015 where the cost of sales decreased as a result from crew services being delivered from Magseis Singapore Services Pte. Ltd. The seismic acquisition contract for this period with Petronas Carigali was held by Magseis Malaysia Sdn. Bhd.

Selling, general and administration expenses (SG&A) and other expenses amounted to USD 9.3 million in 2016 compared to USD 9.5 million in 2015. The SG&A expenses were at the same level for both the Group and the Parent during 2015 and 2016.

Research and development (Group and Parent)

Research and development expenses (R&D) were USD 2.0 million. R&D cost contains cost related to the R&D department in Sweden and other R&D projects. In 2015 R&D expenses amounted to USD 2.1 million. The Parent R&D expense amounted to USD 1.7 million in 2016 and was at USD 2.1 million for 2015.

Depreciation, amortisation and impairment (Group and Parent)

Depreciation amounted to USD 10.8 million in 2016 compared to USD 9.2 million in 2015. Increased depreciation results from more seismic equipment in operation on Artemis Athene.
Amortisation amounted to USD 1.4 million in 2016 compared to USD 4.0 million in 2015. The decrease is mainly due to amortisation of the Multi-client survey Tåkehavet in the Barents Sea with USD 3.5 million in 2015.

During 2016, an impairment of USD 7.4 million was recorded which was primarily caused by a write-down of residual value for the G1 nodes. The reason behind is that the G1 nodes was converted to G2 nodes during 2016, meaning that Magseis does not have any G1 nodes left. This compares to USD 0.1 million for the same period of 2015.

Financial items

In 2016 finance income for the Group amounted to USD 1.6 million, compared to USD 0.3 million for 2015 The finance income mainly comprises a foreign exchange gain.

Financial costs for the Group amounted to USD 3.0 million in 2016, and comprised USD 1.5 million foreign exchange loss in addition to interest expense of USD 1.5 million. In 2015 financial costs for the Group were USD 0.7 million which comprised USD 0.1 million foreign exchange loss in addition to interest expense. In 2016 finance income for the Parent amounted to USD 1.3 million, compared to USD 0.3 million for 2015. The finance income mainly comprises a foreign exchange gain.

Financial costs for the Parent amounted to USD 1.9 million in 2016, and comprised USD 1.1 million foreign exchange loss in addition to interest expense of USD 0.8 million. In 2015 financial costs for the Parent were USD 0.7 million which was the same level as for the Group.

Net loss

Net loss for 2016 was USD -16.7 million for the Group compared to USD -16.5 million in 2015. The net loss for the Group in 2016 is allocated to retained earnings.

Net loss for 2016 was USD -13.2 million for the Parent compared to USD -17.0 million in 2015. The net loss for the Parent in 2016 is allocated to retained earnings.

Other comprehensive income (Group and Parent)

No currency exchange difference is recognised in 2016 and 2015

EBITDA and EBIT

In 2016, the Group recorded an EBITDA of USD 8.5 million while the Parent's EBITDA amounted to USD 8.2 million. EBIT amounted to USD -11.1 million for the Group and USD -11.4 million for the Parent.

In 2015, the Group recorded an EBITDA of USD -2.3 million while the Parent's EBITDA amounted to USD -3.0 million. EBIT amounted to USD -15.6 million for the Group and USD -16.3 million for the Parent.

The significant improvement in EBITDA relates to the same factors as the increase in revenues described above. The loss on an EBIT level for the year was, in addition to depreciation, impacted by the one-off impairment of
USD 7.4 million as described above.

APMs´ reconciliations for EBITDA and EBIT from the statement of comprehensive income as follows:

In thousands of USD	Group 2016	Group 2015	Parent 2016	Parent 2015
Revenue	58 905	40 671	39 122	39 060
Cost of sales	39 038	31 427	20 074	30 501
Research and development	2 022	2 056	1 724	2 045
SG&A and other expenses	9 339	9 535	9 073	9 560
EBITDA	**8 506**	**-2 348**	**8 251**	**-3 046**
Depreciation	10 769	9 193	10 769	9 193
Amortisation	1 409	3 978	1 409	3 978
Impairment	7 441	119	7 441	119
EBIT	**-11 114**	**-15 637**	**-11 368**	**-16 336**

Balance sheet

At 31 December 2016, the Group's equity was USD 49.0 million while the Parent's equity amounted to USD 52.0 million compared to USD 53.7 million for the Group and USD 53.2 million for the Parent in 2015. The decrease from year-end 2016 is a result of the net loss offset by the capital raise of net USD 11.7 million conducted in May 2016. The equity ratio was 56.6% as of end December 2016.

Tangible and other intangible assets amounted to USD 48.6 million as at 31 December 2016 compared to USD 51.8 million at the end of 2015 for both the Group and Parent. The investments comprise seismic equipment on board Artemis Athene as well as capitalisation of expenses related to research and development projects per December 2016.

At 31 December 2016, the net value of the multi-client library is zero due to amortisation of USD 0.9 million during the first quarter of 2016. The multi-client library was 0.9 million in 2015 related to the Tåkehavet multi-client survey.

At 31 December 2016, the Group's current assets amounted to USD 38.1 million while the Parent's current assets amounted to USD 24.5 million compared to USD 21.1 million for the Group and USD 19.7 million for the Parent in 2015. The increase is due to an increase in cash and cash equivalents and in trade receivables for the Group. The Parent's increase is due to increase in intercompany receivables and reduction in cash and cash equivalents as per December 2016.

Non-current liabilities increased to USD 15.1 million as at 31 December 2016 from USD 6.3 million in 2015 for both the Group and the Parent. This is mainly related to debt financing received from Export Credit Norway and Innovation Norway totalling USD 9.1 million. The Group was in compliance with the debt covenants as of 31 December 2016. In addition, funding of accumulated USD 6.2 million was received from Shell Global Solutions related to the cooperation agreement for development of a deep-water solution for seismic operations. This funding is recognised as a finance arrangement in the financial statements. Refer to note 19 other non-current financial liabilities for further information.

The current portion of long-term debt amounted to USD 2.6 million as of December 2016.

As at 31 December 2016 current liabilities for the Group amounted to USD 22.5 million and for the Parent USD 6.0 million compared to USD 12.9 million as at 31 December 2015 for the Group and for the Parent USD 12.0 million. The increase for the Group is mainly due to an increase in accruals of USD 2.6 million resulting from the operations on the Saudi Aramco Red Sea project. Furthermore, it includes USD 5.2 million in pre-funding from BGP as a short-term loan to assist in the financing of required investments for the same project. In addition, an increase of USD 2.6 million in current tax liability related to operations in Malaysia and Saudi Arabia for corporate tax and withholding tax. The decrease for the Parent is mainly zero trade receivables at year-end 2016 compared to USD 7.2 million offset by increase of short-term debt by USD 2.6 million and Saudi Arabia corporate and withholding tax with USD 1.2 million.

Cash Flow

Cash flow from operating activities for the Group was USD -2.1 million in 2016 compared to USD -3.6 million during the same period of 2015. Mobilisation and yard-stay with upgrades of seismic equipment during 2016 affected the operational cash flow negatively. Cash flow from operating activities for the Parent was USD -14.5 million in 2016 compared to USD -3.6 million during the same period of 2015. The deviation from EBIT-DA is due to changes in the working capital.

The net cash flow from investing activities amounted to USD -16.5 million for 2016 compared to USD -15.9 million during the same period of 2015 for both the Group and the Parent. In 2016 the investment activity of seismic equipment was lower with USD 3.7 million and investment in multi-clients was higher with USD 4.4 million compared to 2015.

In 2016, cash flow from finance activities for the Group was USD 26.1 million compared to USD 9.3 million for 2015. This is related to the cooperation agreement with Shell Global Solutions, the pre-funding agreement with BGP, loans from Export Credit Norway and Innovation Norway as well as proceeds from share capital increase in May, offset by instalments and paid interest relating to the finance lease. In 2016, cash flow from finance activities for the Parent was USD 21.8 million compared to USD 9.3 million for 2015. The difference from the Group is the pre-funding agreement with BGP of USD 8 million and USD 3 million more in repayment of debt.

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 2016, the Group incurred a loss after tax of USD -16.7 million and ended with a cash balance of USD 19.0 million and a working capital surplus of USD 15.6 million as at 31 December 2016. In 2016, the Parent incurred a loss after tax of USD -13.2 million and ended with a cash balance of USD 2.4 million and a working capital surplus of USD 18.6 million as at 31 December 2016.

The Group has contracted backlog into Q4 2017, which is an achievement given the current state of the seismic industry and which reflects the relative strength of the ocean bottom seismic market. Magseis is also undertaking and preparing for tenders for a significant volume of work related to the 2017/2018 season. In order to execute the current backlog and continue expansion plans, the Group is dependent on additional funding. The Parent has at the end of March 2017 successfully raised new equity capital of NOK 339.8 million and conducted a subsequent repair offering of NOK 6.0 million on 12 April 2017. The new issues were approved at an extraordinary general meeting 27 March 2017.

The Board expects that the Group and the Parent will benefit from renewed growth within the OBS segment and our current expansion plans. The Board is thereby of the opinion that ability of the Group and the Parent to continue as a going concern, and thereby be able to pay its debts as and when they fall due, is fulfilled.

Risks

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

Magseis intends to grow its operations from one to three by the end of the first quarter of 2018. 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. While the marine seismic market remains challenging the Company is seeing renewed growth in the OBS segment, however 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. Historically, in times of low oil price, demand in exploration spending has been reduced in much greater extent than production related spending, where Magseis is active.

The Group has historically funded its operations through equity financing and for the first time in 2016 debt financing from Export Credit Norway and Innovation Norway . 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 to invest depends on the outlook for the OBS market, the oil prices and the demand. If the Group are unable to comply with covenants of current or future debt financing arrangements, there could be a default under such arrangements. If such default event should occur, the Group may not be in a position to repay in full all outstanding debt, or the Group may be unable to find alternative financing on favourable or acceptable terms.

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

The revenue and cash flow from operations gives the Group access to working capital for ongoing 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.

The Group's annual audited consolidated, and separate for the Parent financial information are prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the additional requirements of the the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway. Changes to existing accounting rules or regulations may impact the Group's future profit and loss or cause the perception that the Group is more highly leveraged. In addition, new accounting rules or regulations and varying interpretations of existing accounting rules or regulations may be adopted in the future and could adversely affect the Group's financial position and results of operations.

Working environment and personnel

At the end of 2016, Magseis had a total of 83 employees and 25 full time consultants, whereof 66 are men and 17 women. Of the 83 employees, 42 are based offshore and 41 are based onshore. There have not been any serious injuries or accidents in the current or prior year. In 2016 the average sick day percentage for the onshore staff was 1.7 percent and 3.9 percent for the offshore crew where all is related to long-term sickness. In 2015, the average sick days recorded was 1.1 percent for the onshore staff and 1.0 percent for the offshore crew.

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.

Social Corporate Responsibility

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

Corporate responsibility managed in Magseis through a set of processes which a monitor and ensure active compliance within the spirit of the law, ethical standards, and international norms. These processes incorporate the following elements:

- Internal control
- Corporate Governance
- Ethics and Compliance
- Corporate social responsibility
- Code of Conduct
- Anti-corruption compliance
- Q and HSE Policies.

The topics are tightly inter-connected, as an example; compliance is an important mechanism that supports effective governance, whilst effective governance is a tool to combat internal corruption or unethical business practice.
Some of these processes apply to how management operate the business, but also elements apply to every employee and individual working on behalf of or representing Magseis.

Human rights and labour

Magseis respects fundamental human rights, labour rights and labour standards, such as non-discrimination, freedom of association and collective bargaining, decent wages and regulated working hours. Operating internationally with employees from many countries, Magseis makes its best effort to meet international standards in all its locations regardless of lower local regulations.

Anti-corruption

During 2016 Magseis established an anti-corruption compliance program which consists of a new anti-corruption compliance standard, building further upon the code of conduct by defining clear requirements, training for all employees and appointment of a compliance officer.

Quality

During 2016 Magseis began work towards ISO 9001:2015 certification, and plans to start the formal certification process in the first half of 2017.

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. We are committed to minimising that impact through a program of continual improvement in environmental performance, which incorporates measurement, monitoring and feedback.

Board of Directors of Magseis ASA,
Lysaker, 21 April 2016

Jan P. Grimnes,
Chairman, Non-executive

Jan Gateman,
Director and Senior Vice President

On behalf of
Director, Non-executive
Bettina R. Bachmann:
Peter Van Giessel

Jan M. Drange,
Director, Non-executive

Idar Horstad
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 2016 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, 21 April 2016

Jan P. Grimnes,
Chairman, Non-executive

Jan Gateman,
Director and Senior Vice President

On behalf of
Director, Non-executive
Bettina R. Bachmann:
Peter Van Giessel

Jan M. Drange,
Director, Non-executive

Idar Horstad
Chief Executive Officer

CORPORATE GOVERNANCE REPORT

General principles, implementation and reporting on Corporate Governance

The Group believes that good and sound corporate governance creates shareholder value and reduces risks, and has made a strong commitment to develop high standards of Corporate Governance. The Group has complied, and will continue to comply, with the Norwegian Code of Practice for Corporate Governance (the "Corporate Governance Code"), last revised on 30 October 2014, and which is available on the Norwegian Corporate Governance Board's web site www.nues.no. The principles are also in accordance with section 3-3b of the Norwegian Accounting Act, which can be found at https://lovdata.no/dokument/NL/lov/1998-07-17-56. Magseis considers the development of high Corporate Governance standards of 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.

Purpose and background

Good corporate governance is characterised by open, responsible communication and cooperation among the Company's owners, its Board of Directors, and management, in the context of both short- and long-term value creation perspectives. The Board of Directors wants our shareholders, employees, customers, suppliers, financial associates, and governmental bodies, as well as society in general, to be confident and trust that Magseis is governed in a satisfactory manner. The Board of Directors and the nomination committee also have procedures in place to ensure that the Board of Directors is sufficiently independent in the execution of its duties. Corporate governance deals with questions and principles related to the distribution of roles between governing bodies, as well as their respective areas of responsibility and authority. Sufficient attention must be given to the formulation of these roles and functions, in order to secure ample control, but at the same time to encourage innovation and entrepreneurship.

The purpose of this policy is to regulate the division of roles between shareholders, the Board of Directors and executive management and through the efficient use of the Company's resources help to ensure the greatest possible value creation over time in the best interests of shareholders, employees and other stakeholders.

Business of Magseis

The vision of Magseis is to reduce OBS cost to a level where it increases its potential market and 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 the customers' first choice within field development and the exploration industry. In fulfilling this purpose, Magseis will create long-term value for its customers and shareholders.

Equity and dividends

The Group's equity as per 31 December 2016 amounts to USD 49.0 million, 56.6% 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. To this effect, the Board of Directors has proposed that the shareholders in an extraordinary general meeting to be held on 27 March 2017, approve the terms for a private placement and subsequent repair offering. Board authorisations for share capital increases and buy-back of own shares are generally limited to defined purposes and are granted only with effect until the next annual general meeting.

The Group is currently in a growth phase and has not yet distributed any dividends. As per 31 December 2016, the Company has no distributable equity and the Board of Directors will not propose a dividend for 2016 to the Annual General Meeting. Magseis will over time develop and disclose a dividend policy including an appropriate payout to its shareholders.

Equal treatment of shareholders and transactions with close associates

Magseis has only one class of shares, and all shares 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. The shareholders of the Company have preferential rights to subscribe for new shares. If and to the extent that the preferential right is set aside, either by the general meeting or by the Board of Directors on the basis of an authorisation granted by the general meeting, the reason for this will be disclosed by the Company. Any trades in the Company's own shares will be conducted over the trading platform of Oslo Axess or at stock exchange prevailing prices. In respect of any related party agreements which are not immaterial, the Board of Directors will consider to obtain an independent valuation, unless the agreement shall be approved by the general meeting in accordance with law. Magseis has implemented guidelines to ensure that board members and members of the executive management notifies the Board if they directly or indirectly holds a significant interests in respect of an agreement being made by the Company.

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, save to the extent restricted by foreign securities legislation imposed in connection with 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 requirements set out in statutory Norwegian law and the recommendations of 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 at any time.

The Board will seek to ensure that the proposed resolutions and supporting information distributed in the calling notice for the meeting are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting. The notice and supporting information, as well as an attendance- and proxy voting form, are convened by written notice to all shareholders with known addresses and will normally also be made available on the Company's website www.magseis.com no later than 21 days prior to the date of the General Meeting. Shareholders who wish to receive the appendices may request the Group to mail such attachments free of charge.

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 of Directors, the CEO, the CFO, the nomination committee and the auditor 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 (employee-elected board members would be elected among employees), 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 as soon as possible 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, and any deviation from the proposal by the Board of Directors will be set out in such announcement.

Nomination committee

Magseis' nomination committee consists of three members; Roar Bekker (chairperson), Anders Farestveit and Jon Hille Valle. All of them satisfy the requirement to be 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 maximum one member of the Nomination Committee shall be member of the Board of Directors, and shall not run for re-election. 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

Magseis is by law not required to, and has accordingly not established a corporate assembly.

The Board of Directors has the 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 four members, including one representative of the employees. Currently, the Board of Directors does not satisfy the gender requirements of the Norwegian Public Liability Companies Act. It is however the intention that this will be remedied in connection with the annual general meeting for 2017. The proceedings and responsibilities of the Board of Directors are governed by a set procedural rules. 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 of Directors believes promotes a common financial interest between the members of the Board of Directors 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. Jan P. Grimnes, Jan M. Drange and Bettina R. Bachmann 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 own directly or indirectly 17 % of the outstanding shares. One of the directors, which is

one of the cofounders and is hired as an executive consulatant, is the third largest shareholder with ownership of approx. 10 % of the outstanding shares. The Board of Directors continuously evaluates conflict of interest and the members' independence in each resolution.

The term of office for members of the Board of Directors is two years unless the General Meeting decides otherwise, but all directors are eligible for re-election.

The work of the Board of Directors

The Board of Directors meet a number of times during the year, including for strategy meetings, financial reporting and additional meetings under special circumstances if necessary. During 2016, the Board of Directors held 19 meetings. The working methods for the Board of Directors are subject to open discussion. Between meetings, the Chairman and Chief Executive Officer update the members of the Board of Directors on current matters. Each meeting of the Board of Directors includes a briefing by CEO followed by questions and answers session (Q&A). The meetings of the Board of Directors are on a continuous basis focused on ensuring satisfactory procedures and corporate culture promoting high ethical conduct and compliance with legal and regulatory requirements amongst all employees of the Group. The Board of Directors has adopted an annual plan which focuses on the strategic goals of the Group. The Board of Directors has furthermore established guidelines for the executive management with a clear division of responsibilities. In cases where the chairman of the Board is or has been actively involved, another member of the Board of Directors will be tasked to lead the discussions.

The Company has established a remuneration committee which comprises Jan P. Grimnes, Bettina Bachman and Jan M. Drange. The remuneration committee assists the Board of Directors with matters relating to the compensation and benefits of the CEO and other Executive Management.

Risk management and internal control

The Board of Directors, in conjunction with the executive management, evaluates the risks inherent in the operations of the Group on a continuous basis.

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 of Directors, 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 of Directors is presented and approves an annual budget/forecast at the end of the preceding financial year or in the beginning of the commencing financial year. Thereafter, the Board is presented with regular updates and reports identifying material variations from the approved budget/forecast. Explanations are obtained for material variances. The Board of Directors is also presented with and approves interim financial statements on a quarterly basis which are reviewed together with the executive management.

Remuneration of the Board of Directors

In accordance with Norwegian law and the recommendations of the Code, the remuneration to the members of the Board of Directors is resolved in the Annual General Meeting. The remuneration of the Board of Directors is designed to reflect the responsibility and competence of the Board of Directors as well as the time spent and complexity of the business of the Group. The remuneration of the Board of Directors is not contingent upon the results of operations. [No options are afforded to the members of the Board of Directors]. In accordance with the Code, members of the Board of Directors should not assume other tasks for the Company than the directorship. Jan B. Gateman, who is a member of the Board of Directors, is also SVP R&D for Magseis, and the Company is accordingly not compliant with the Code.

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's policy for remuneration of executive personnel is presented to and approved by the annual general meeting. 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 which is linked to long-term results and achievements for the Group.

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.

Audit committee

The Company has established an audit committee which comprises Jan P. Grimnes and Jan M. Drange.
The audit committee shall consist of board members who fulfil the requirements of section 6-42 of the Public Companies Act. Moreover, the majority of the members should be independent of the Company.

The audit committee shall;

- Review interim and annual financial reports and processes.
- Monitor the systems for internal control and risk management.
- Maintain ongoing contact with the Company's elected auditor regarding the audit of the annual financial statement.
- Assess and monitor the auditor's independence, here under particularly to which extent other services than auditing, provided by the auditor or the auditing Company, constitute a threat against the auditor's independence.

The auditor should, at least once a year, review together with the audit committee, the Company's internal control, hereunder identify weaknesses and provide suggestions for improvements.

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 take-overs. 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 of Directors 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

KPMG AS has been appointed the auditor for the Company since 2012 and the Board will from time to time evaluate the audit arrangement for the Company.

The auditor participates in meetings of the audit Committee and 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 meets 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. The remuneration paid to the auditor will be approved by the General Meeting.

FINANCIAL STATEMENTS

Statements of comprehensive income
For the year ended 31 December 2016

magseis

In thousands of USD	*Note*	Group 2016	Group 2015	Parent 2016	Parent 2015
REVENUE AND OTHER INCOME					
Total revenue and other income	*5*	**58 905**	**40 671**	**39 122**	**39 060**
OPERATING EXPENSES					
Cost of sales	*6*	39 038	31 427	20 074	30 501
Research and development expenses	*6*	2 022	2 056	1 724	2 045
Selling, general and administrative costs	*6*	7 863	7 569	7 768	7 611
Other expenses		1 475	1 966	1 305	1 949
Depreciation	*13*	10 769	9 193	10 769	9 193
Amortisation	*12, 14*	1 409	3 978	1 409	3 978
Impairment	*13*	7 441	119	7 441	119
Total operating expenses		**70 018**	**56 308**	**50 492**	**55 396**
OPERATING PROFIT (LOSS)		**-11 114**	**-15 637**	**-11 369**	**-16 336**
FINANCIAL INCOME AND EXPENSES					
Finance income	*7*	1 593	283	1 279	299
Finance costs	*7*	-2 986	- 717	-1 915	- 716
Net finance costs		**-1 393**	**- 434**	**- 636**	**- 416**
NET PROFIT (LOSS) BEFORE TAX		**-12 507**	**-16 071**	**-12 006**	**-16 752**
Income tax expense	*10*	4 188	439	1 241	245
NET PROFIT (LOSS)		**-16 695**	**-16 510**	**-13 246**	**-16 997**
Basic earnings (loss) per share (in USD)	*16*	-0.48	-0.58	-0.35	-0.57
Diluted earnings (loss) per share (in USD)	*16*	-0.48	-0.58	-0.35	-0.57
OTHER COMPREHENSIVE INCOME					
Currency exchange differences		0	0	0	0
Total comprehensive income (loss) for the year, attributable to Owners of the Company		**-16 695**	**-16 510**	**-13 246**	**-16 997**

In thousands of USD	*Note*	Group 2016	Group 2015	Parent 2016	Parent 2015
ASSETS					
Non-current assets					
Equipment	*13*	42 991	47 346	42 991	47 346
Multi-client library	*12*	0	877	0	877
Intangible assets	*14*	5 583	3 543	5 583	3 543
Investment in subsidiary	*21*	0	0	15	15
Total non-current assets		**48 574**	**51 766**	**48 589**	**51 781**
Current assets					
Cash and cash equivalents	*8*	18 974	11 435	2 372	11 395
Trade receivables		10 681	2 693	546	2 693
Other current assets	*9*	8 436	6 936	23 383	5 566
Total current assets		**38 092**	**21 064**	**26 301**	**19 654**
TOTAL ASSETS	*2,1*	**86 665**	**72 830**	**74 890**	**71 435**
EQUITY					
Shareholders' equity					
Share capital	*15*	303	254	303	254
Share premium	*15*	102 594	90 945	102 594	90 945
Other equity	*17*	3 012	2 630	3 012	2 630
Retained earnings		-51 740	-35 045	-48 778	-35 532
Currency translation reserve		-5 124	-5 123	-5 124	-5 123
Total equity attributable to equity holders of the Company		**49 045**	**53 661**	**52 007**	**53 174**
TOTAL EQUITY		**49 045**	**53 661**	**52 007**	**53 174**
LIABILITIES					
Non-current liabilities					
Obligation under finance lease	*18*	951	1 891	951	1 891
Other non-current financial liabilities	*19*	14 188	4 402	14 188	4 402
Total non-current liabilities		**15 139**	**6 293**	**15 139**	**6 293**
Current liabilities					
Trade payables	*3*	5 870	7 607	1 754	7 178
Current tax payable	*10*	2 841	212	1 211	18
Current portion of obligations under finance lease and loan	*19*	7 881	848	2 644	848
Other current liabilities	*11*	5 890	4 209	2 135	3 924
Total current liabilities		**22 481**	**12 876**	**7 744**	**11 968**
TOTAL LIABILITIES		**37 620**	**19 169**	**22 883**	**18 261**
TOTAL EQUITY AND LIABILITIES	*2,1*	**86 665**	**72 830**	**74 890**	**71 435**

Board of Directors of Magseis ASA,
Lysaker, 21 April 2016

Jan P. Grimnes,
Chairman, Non-executive

Jan Gateman,
Director and Senior Vice President

On behalf of
Director, Non-executive
Bettina R. Bachmann:
Peter Van Giessel

Jan M. Drange,
Director, Non-executive

Idar Horstad
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 2015		**237**	**83 774**	**2 039**	**-18 535**	**-5 124**	**62 391**
Profit / (loss) for the year		0	0	0	-16 510	0	-16 510
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the year		0	0	0	-16 510	0	-16 510
Share issuance		17	7 452	0	0	0	7 469
Expenses related to share issuance		0	- 281	0	0	0	- 281
Share-based payments (options)		0	0	591	0	0	591
Balance at 31 December 2015	*15*	**254**	**90 945**	**2 630**	**-35 045**	**-5 124**	**53 661**
Balance at 1 January 2016		**254**	**90 945**	**2 630**	**-35 045**	**-5 124**	**53 661**
Profit / (loss) for the period		0	0	0	-16 695	0	-16 695
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the period		0	0	0	-16 695	0	-16 695
Share issuance		49	12 134	0	0	0	12 183
Expenses related to share issuance		0	-485	0	0	0	-485
Share-based payments (options)		0	0	382	0	0	382
Balance at 31 December 2016	*15*	**303**	**102 594**	**3 012**	**-51 740**	**-5 124**	**49 045**

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 2015		**237**	**83 774**	**2 039**	**-18 534**	**-5 124**	**62 394**
Profit / (loss) for the year		0	0	0	-16 997	0	-16 997
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the year		0	0	0	-16 997	0	-16 997
Share issuance		17	7 452	0	0	0	7 469
Expenses related to share issuance		0	- 281	0	0	0	- 281
Share-based payments (options)		0	0	591	0	0	591
Balance at 31 December 2015	*15*	**254**	**90 945**	**2 630**	**-35 532**	**-5 124**	**53 174**
Balance at 1 January 2016		**254**	**90 945**	**2 630**	**-35 532**	**-5 124**	**53 174**
Profit / (loss) for the year		0	0	0	-13 246	0	-13 246
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the year		0	0	0	-13 246	0	-13 246
Share issuance		49	12 134	0	0	0	12 183
Expenses related to share issuance		0	-485	0	0	0	- 485
Share-based payments (options)		0	0	382	0	0	382
Balance at 31 December 2016	*15*	**303**	**102 594**	**3 012**	**-48 778**	**-5 124**	**52 007**

In thousands of USD	*Note*	Group 2016	Group 2015	Parent 2016	Parent 2015
Cash flows from operating activities					
Profit / (Loss) before tax		-12 507	-16 071	-12 006	-16 753
Adjustment for:					
Taxes paid	*10*	-1 133	-245	0	- 245
Deferred lease discount amortisation		- 470	- 460	- 470	- 460
Depreciation and amortisation	*12,13,14*	12 179	13 171	12 179	13 171
Impairment	*13*	7 441	119	7 441	119
Share based payments expense		382	591	382	591
Interest expense	*7*	1 452	595	771	595
Interest income	*7*	- 15	- 49	- 10	- 49
Working capital adjustments:					
(Increase) / decrease in current assets		-9 395	2 487	-15 670	4 105
Increase / (decrease) in trade and other payables and accruals		- 51	-3 763	-7 119	-4 708
		-9 447	-1 276	-22 789	-603
Net cash from operating activities		**-2 117**	**-3 625**	**-14 503**	**-3 634**
Cash flows from investing activities					
Interest received	*7*	15	49	10	49
Acquisition of equipment	*13*	-13 906	-10 133	-13 813	-10 133
Payments for capitalised development and intangibles	*14*	-2 572	-1 389	-2 572	-1 389
Multi-client library investments	*12*	0	-4 383	0	-4 383
Net cash used in investing activities		**-16 463**	**-15 856**	**-16 375**	**-15 856**
Cash flows from financing activities					
Proceeds from loan	*19*	20 306	3 310	12 266	3 310
Payment of finance lease obligation and loan		-4 431	- 761	-1 338	- 761
Proceeds from issue of share capital	*15*	12 183	7 469	12 183	7 469
Expenses related to issue of share capital	*15*	- 485	- 281	- 485	- 281
Interest paid	*7*	-1 452	- 412	- 771	- 412
Net cash from financing activities		**26 120**	**9 325**	**21 855**	**9 325**
Net change in cash and cash equivalents		7 540	-10 156	-9 023	-10 165
Cash and cash equivalents at 1 January		11 435	21 591	11 395	21 560
Cash and cash equivalents at 31 December		**18 974**	**11 435**	**2 372**	**11 395**

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 subsidiaries (together referred to as "Magseis" or "the "Group"). The Group is primarily involved in marine seismic operations and seismic-related activities. The Group's Ocean Bottom Seismic (OBS) acquisition system and our automated handling system provides efficient OBS operations.

These financial statements have been approved for issue by the Board of Directors 21 April 2017 and will be finally approved in the ordinary general meeting 22 June 2017.

2.1 Basis of preparation

(a) Statement of compliance

The Parent and consolidated financial statements for the Group (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).

(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 and the Parent'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 and the Parent'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 2016 the Group incurred a loss after tax of USD 16.7million and ended with a cash balance of USD 19.0 million and a working capital surplus of USD 15.6 million as at 31 December 2016. As of 31 December 2016 the Parent incurred a loss after tax of USD 13.2 million and ended with a cash balance of USD 2.4 million and a working capital surplus of USD 18.6 million.

The Group has contracted backlog to end of 2017, which in management's view is very good in the seismic industry. The Group is undertaking tenders for a significant volume of work related to 2017/2018 season. On this basis the Group is working to manage its cost and liquidity position. The Parent company has at the end of March 2017 successfully raised new equity capital of NOK 339.8 million and conducted a subsequent repair offering to NOK 6.0 million on 12 April 2017. The new issues were approved at an extraordinary general meeting 27 March 2017.

The management is optimistic that the Group in a very challenging market will maintain the ability to grow further as our backlog and position in the OBS market continues to develop. The ability of the Group and the Parent to continue as a going concern, and thereby be able to pay its debts as and when they fall due, is fulfilled.

(d) Functional and presentation currency

The Group's functional and presentation currency is United States Dollar (USD).

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.

2.2 Basis for consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016. 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 investee. 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 ac-

counting 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 environment 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 determining 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 calculation. 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.

Amortisation of multi-client library

The management forecasts future sales on each multi-client survey for the purpose of determining the amortisation rate in the work in progress (WIP) period and the amount of impairment, if any. In forecasting future-sales management considers past experience, market developments, geographical prospects, political risk and timing of licensing rounds. Amortisation rates could deviate significantly from year to year due to inherent uncertainty about future sales. Furthermore, future sales of multi-client library may not be sufficient to cover the carrying amount. In the case that actual revenue is less than forecasted revenue the future reporting periods will reflect lower profit due to increased amortisation rate and/or impairment of multi-client library. The Group applies a straight-line amortisation policy after the project is completed to reduce the risk of an increase of future amortisation rate or impairment. The straight-line amortisation will be assigned over the project's remaining useful life, which for most projects is expected to be 4 years. The minimum amortisation policy is described in note 2.4(e).

Revenue recognition

The Group renders seismic OBS services for customers on marine exclusive contracts. Revenue from these services is recognised by use of the percentage of completion method. This method requires the Group to estimate the services performed to date as a proportion of the total contractual services to be performed.

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

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. The revenue is measured at fair value of the consideration received, net of discounts and sale taxes and duty.

(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

Multi-client surveys consist of surveys to be licensed to customers on a non-exclusive basis. All costs directly incurred in acquiring, processing and otherwise completing seismic surveys are capitalised into the multi-client surveys. The carrying amount of multi-client library on the balance sheet date is shown at historical costs less accumulated amortisation and accumulated impairments.

Revenues related to multi-client surveys generally falls into two categories:

Pre-commitment arrangements - When the Group obtains pre-funding from customers before a seismic project is started or during the project period. These pre-commitments cover specific areas or license blocks. In return for the commitment, the customer obtains early access to the data, favourable pricing compared to late sales and a degree of influence over the project. Advance payments from customers are deferred and recognised over the project period from the time the project commences based on the ratio of project cost incurred during that period to total estimated project cost.

Late sales – When the Group grants a license entitling non-exclusive access to complete and ready for use, specially defined portions of multi-client data library in exchange for a fixed and determinable payment. Revenue is recognised at the time of the transaction when the customer executes a valid license agreement and has been granted access to the data.

(III) Mobilisation revenue and cost

Mobilisation revenue and the related mobilisation costs relates to moving the seismic vessel and its crew from one location to the next location specified by the contract. Such cost includes in the multi-client survey or exclusive contract with which the costs are associated. The mobilisation costs related to multi-client survey are capitalised as a part of the multi-client library as mentioned. Mobilisation costs on exclusive surveys are deferred and charged to expense based upon the percentage of completion of specific project, season or period of moving to a region. If the mobilsation period is prolonged then the mobilisation cost will increase. The estimated probable future economic inflows are documented at inception and cover the costs capitalised or deferred. If the projects are not able to cover all of the costs which could be capitalised or deferred then only those costs that are recoverable are capitalised/deferred.

(b) Foreign currency

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss.

Non-monetary assets items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(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 de-recognised 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 de-recognised 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) Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts to hedge its foreign currency risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of purchase contracts that meet the definition of a derivative is recognised in the income statement as cost of sales. Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

(III) 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 historical cost less accumulated depreciation and any accumulated impairment losses.

Historical 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 the asset is completed and ready for use.

If an indication of impairment exists, an impairment test is performed. If the recoverable amount of a tangible non-current asset is lower than book value, the asset will be written down to the higher of fair value less cost to sell and value in use. An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on de-recognising of the asset calculated as the difference between the net disposal and the carrying amount of the asset is included in the income statement in the year the asset is de-recognised.

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.

Equipment under construction are classified as non-current assets and recognised at the cost, it is not depreciated until the non-current asset is taken into use.

(e) Intangible assets

Intangible assets, except for multi-client library

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.

Multi-client library

Multi-client library includes both completed seismic data and projects in work which is licensed on a non-exclusive basis to oil and gas search/production companies. Costs directly incurred during acquiring, imaging and otherwise completing seismic surveys are capitalised to the multi-client library. Costs incurred while mobilisation of a vessel from one location to another and imaging phases of the survey are also capitalised to the multi-client library.

A project remains in surveys-in-progress until imaging is complete, at which point it is transferred to finished library.

The company have adopted the amendment to IAS 38 “Intangible assets” effective form January 1, 2016; during the work in progress (WIP) phase, amortisation will continue to be based on total cost versus forecasted total revenue of the project. After a project is completed and ready for sale, a straight-line amortisation will apply. The straight-line amortisation will be assigned over the project’s remaining useful life, which for most projects is expected to be 4 years. The straight-line amortisation will be distributed evenly through the financial year independently of sales during the quarters. Magseis did not have any multi-client project being completed in 2016, the value of multi-client library as of December 2016 is zero.

The Company expects additional, non-sales related, impairment expense to occur because each individual survey is evaluated at least annually for impairment or when specific indicators exist. Also see impairment (i).

(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

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.

Operating leases

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) Trade receivables

Trade receivables are carried at their anticipated realisable value, which is the original invoice amount less an estimated valuation allowance for impairment of these receivables. A valuation allowance for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. amounts due according to the original terms of the receivable.

(i) 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.

The Group will work on new technology and new generation MASS equipment. In 2016 the Group converted G1 into G2 nodes and impaired the residual value of G1 in the balance sheet due to the fact that the Group does not have any G1 nodes left.

(j) 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 Group operates an equity-settled, share-based compensation plan. 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 include a total vesting period of up to three years.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Management believes this gives the employees incentive to be part of the organisation for a longer period.

(III) Defined contribution plan

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. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior period. The Group has therefore no further payment obligations once the contributions have been paid. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity for pension, based on obligatory, agreed on or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(k) 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.

(l) 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.

(m) 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.

(n) Earnings per share

The Group present its basis earnings per share and diluted earnings per share after dilution. Ordinary earnings per share are calculated as the ratio between the net profit/(loss) for the year that accrues to the ordinary shareholders and the weighted average number of shares outstanding. The figure for diluted earnings per share is the result that accrues to the ordinary shareholders, and the number of weighted average number of shares outstanding has been adjusted for all diluting effects related to share options.

(o) Events after the balance sheet date

A distinction is made between events both favourable and unfavourable that provide evidence of conditions that existed at the balance sheet date (adjusting events) and those that are indicative of conditions that arose after the balance sheet date (non-adjusting events). Financial statements will only be adjusted to reflect adjusting events (although there are disclosure requirements for non-adjusting events).

(p) Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other short term highly liquid placement with original maturities of three months or less. The cash flows are divided into operating activities, investing activities and financing activities

(q) 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.

(r) 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

IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. Magseis is in the process of evaluating the potential impact of IFRS 15 on contract revenue and multi-client prefunding arrangement. The standard becomes mandatory for

annual periods beginning on or after 1 January 2018. Magseis will chose the cumulative effect method. As of date the Group does not have any contract into 2018.

IFRS 9 Financial instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Magseis is in the process of evaluating the potential impact of IFRS 9 and expects no significant impact on its balance sheet and equity when implementing. The standard becomes mandatory for annual periods beginning on or after 1 January 2018.

IFRS 16 Leases

IFRS 16 replaces existing guidance in IAS 17 Leases. IFRS 16 eliminates the current dual accounting model for leases and will establish a single, on-balance sheet accounting model that is similar to the current finance lease accounting under IAS 17.The standard will primarily affect the accounting of Magseis ASA's operating leases. The most significant contract related to operating leases that would be affected by the new standard is related to the lease of the vessel Artemis Athene. However, the current lease contract is set to expire before the new standard applies. Magseis is in the process of further evaluating the potential impact of IFRS 16. The standard becomes mandatory for annual periods beginning on or after 1 January 2019.

(s) Alternative Performance Measures ("APMs")

The European Securities and Markets Authority (ESMA) issued guidelines on Alternative Performance Measures ("APMs") that came into force on 3 July 2016. The Company has defined and explained the purpose of the following APMs;

EBITDA

EBITDA means Earnings before interest, taxes, amortisation, depreciation and impairments. Magseis has included EBITDA as a supplemental disclosure because management believes that the measure provides useful information regarding the Company's ability to service debt and to fund capital expenditures and provides a helpful measure for comparing its operating performance with that of other companies.

EBIT (Operating Profit)

Earnings before interest and tax is an important measure for Magseis as it provides an indication of the profitability of the operating activities.
The EBIT margin presented is defined as EBIT (Operating Profit) divided by net revenues.

For reconciliation between statement of comprehensive income and APMs' EBITDA and EBIT see page 10.

Backlog

Backlog is defined as the total value of future revenue from signed customer contracts. Management believes that the backlog figure is a useful measure in that it provides an indication of the amount of customer backlog and committed activity in the coming periods.

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

	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	*2016*	*2015*	*2016*	*2015*
Financial assets				
Cash and cash equivalents	18 974	11 435	2 372	11 395
Trade receivables	10 681	2 693	546	2 693
Other receivables	0	4 080	0	1 018
Total	**29 656**	**18 208**	**2 918**	**15 106**

The aging of trade receivables at the reporting date was:

GROUP				
In thousands of USD	Carrying amount	Impairment	Carrying amount	Impairment
Year	*2016*	*2016*	*2015*	*2015*
Past due 0-30 days	10 135	0	2 693	0
Past due 31-120 days	63	0	0	0
More than 120 days	483	0	0	0
Total	**10 681**	**0**	**2 693**	**0**

PARENT				
In thousands of USD	Carrying amount	Impairment	Carrying amount	Impairment
Year	*2016*	*2016*	*2015*	*2015*
Past due 0-30 days	0	0	2 693	0
Past due 31-120 days	63	0	0	0
More than 120 days	483	0	0	0
Total	**546**	**0**	**2 693**	**0**

During 2016, the Group had no loss on receivables. As at 31 December 2016, the Group's and Parent's trade receivables comprise substantially of receivables from BGP, which is an international oil company. The receivables are considered recoverable, and thus no provision has been made for the receivables. In comparison, the group suffered no losses on receivables in 2015, and no provisions were made for losses at 31.12.15.

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.

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	More than 5 years
At 31 December 2016							
Non-derivative financial liabilities							
Trade payables	5 870	5 870	5 870	0	0	0	0
Non-trade payables	1 012	1 012	388	624	0	0	0
Accrued expenses	4 879	4 879	4 879	0	0	0	0
Finance lease obligations	1 891	2 097	270	825	1 002	0	0
Secured loan facility	9 135	10 457	554	970	2 164	6 768	0
Unsecured loan facility	5 236	5 236	3 125	2 113	0	0	0
Non-current finance arrangement	6 207	15 489	0	0	1 384	14 105	0
Total	**34 230**	**45 040**	**15 086**	**4 532**	**4 550**	**20 873**	**0**
At 31 December 2015							
Non-derivative financial liabilities							
Trade payables	7 607	7 607	7 607	0	0	0	0
Non-trade payables	892	892	510	382	0	0	0
Accrued expenses	2 847	2 847	2 847	0	0	0	0
Finance lease obligations	2 739	3 195	273	825	1 095	1 002	0
Unsecured loan facility	455	455	0	0	114	341	0
Non-current finance arrangement	3 038	5 583	0	0	2 382	3 201	0
Total	**17 578**	**20 579**	**11 237**	**1 207**	**3 591**	**4 544**	**0**

PARENT							
In thousands of USD	Carrying amount	Contractual cash flow	3 months or less	3-12 months	1-2 years	2-5 years	More than 5 years
At 31 December 2016							
Non-derivative financial liabilities							
Trade payables	1 754	1 754	1 754	0	0	0	0
Non-trade payables	986	986	392	594	0	0	0
Accrued expenses	1 149	1 149	1 149	0	0	0	0
Finance lease obligations	1 891	2 097	270	825	1 002	0	0
Secured loan facility	9 135	10 457	554	970	2 164	6 768	0
Non-current finance arrangement	6 207	15 489	0	0	1 384	14 105	0
Total	**20 943**	**31 932**	**4 119**	**2 389**	**4 550**	**20 873**	**0**
At 31 December 2015							
Non-derivative financial liabilities							
Trade payables	7 178	7 178	7 178	0	0	0	0
Non-trade payables	1 160	1 160	778	382	0	0	0
Accrued expenses	4 203	4 203	4 203	0	0	0	0
Finance lease obligations	2 739	3 195	273	825	1 095	1 002	0
Unsecured loan facility	455	455	0	0	114	341	0
Non-current finance arrangement	3 038	5 583	0	0	2 382	3 201	0
Total	**18 773**	**21 774**	**12 432**	**1 207**	**3 591**	**4 544**	**0**

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 3 years are USD 34.3 million with an equal exposure each month (Group and Parent). At 31.12.15, the remaining cash outflows were USD 51.5 million. 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), Singapore Dollars (SGD), Malaysian Ringgit (MYR), Swedish krona (SEK) and Saudi Arabian Riyal (SAR).

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.

Contractual cash flow in denominated currencies.

CURRENCY RISK GROUP							
In thousands	SEK	GBP	NOK	SGD	EUR	SAR	MYR
At 31 December 2016							
Trade payables	2 488	320	33 304	37	24	510	447
Accruals	150	0	10 510	0	0		0
Financial statement position exposure	**2 638**	**320**	**43 814**	**37**	**24**	**510**	**447**
Capital commitments	13 189	0	51 230	0	418	1	0
Forecast transaction exposure	**13 189**	**0**	**51 230**	**0**	**418**	**1**	**0**
Total	**15 827**	**320**	**95 044**	**37**	**442**	**511**	**447**

CURRENCY RISK GROUP							
In thousands	SEK	GBP	NOK	SGD	EUR	SAR	MYR
At 31 December 2015							
Trade payables	3 067	471	20 987	149	7	0	2 376
Accruals	991	169	8 686	46	99	0	1 423
Financial statement position exposure	**4 058**	**640**	**29 673**	**195**	**106**	**0**	**3 800**
Capital commitments	0	0	13 860	0	0	0	0
Forecast transaction exposure	**0**	**0**	**13 860**	**0**	**0**	**0**	**0**
Total	**4 058**	**640**	**43 533**	**195**	**106**	**0**	**3 800**

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		SEK	GBP	NOK	SGD	EUR	SAR	MYR
2016	(+) 10%	-175	-40	-1 102	-3	-47	-14	-10
	(-) 10%	175	40	1 102	3	47	14	10
2015	(+) 10%	-48	-95	-337	-14	-12	0	-88
	(-) 10%	48	95	337	14	12	0	88

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

Contractual cash flow in denominated currencies.

CURRENCY RISK PARENT							
In thousands	SEK	GBP	NOK	SGD	EUR	SAR	MYR
At 31 December 2016							
Trade payables	1 831	253	30 158	40	24	510	124
Accruals	109	0	10 510	0	0	0	0
Financial statement position exposure	**1 941**	**253**	**40 668**	**40**	**24**	**510**	**124**
Capital commitments	13 189	0	51 230	0	418	1	0
Forecast transaction exposure	**13 189**	**0**	**51 230**	**0**	**418**	**1**	**0**
Total	**15 130**	**253**	**91 898**	**40**	**442**	**511**	**124**

CURRENCY RISK PARENT							
In thousands	SEK	GBP	NOK	SGD	EUR	SAR	MYR
At 31 December 2015							
Trade payables	1 041	471	20 945	17	7	0	0
Accruals	0	6	8 686	1	99	0	0
Financial statement position exposure	**1 041**	**477**	**29 631**	**19**	**106**	**0**	**0**
Capital commitments	0	0	13 860	0	0	0	0
Forecast transaction exposure	**0**	**0**	**13 860**	**0**	**0**	**0**	**0**
Total	**1 041**	**477**	**43 491**	**19**	**106**	**0**	**0**

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		SEK	GBP	NOK	SGD	EUR	SAR	MYR
2016	(+) 10%	-167	-31	-1 066	-3	-47	-3	-11
	(-) 10%	167	31	1 066	3	47	3	11
2015	(+) 10%	-12	-71	-337	-1	-12	0	0
	(-) 10%	12	71	337	1	12	0	0

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

Interest rate risk

The Group currently has two long-term interest-bearing loans and a finance lease where both have a constant interest rate throughout the term. In addition, the company has engaged in a cooperation agreement related to a development project. The funds received from this partner is treated as a finance arrangement and interest is calculated based on an annuity method. The cash flow is based on a forecast of expected future receipt of funds and instalments and interest expense rate and amount will vary each quarter when these forecasts are updated. 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.

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

	Group	Group	Parent	Parent
In thousands of USD	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Year	*2016*	*2015*	*2016*	*2015*
Interest bearing debt except finance lease	20 219	455	14 983	455
Effect on 1% increase in interest rate	202	5	150	5
Cash and cash equivalents	18 974	11 435	2 372	11 395
Effect on 1% increase in interest rate	190	114	24	114

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 December 31 2016 there are no differences between the carrying amount and fair value upon initial recognition for any financial assets or financial liabilities. The corresponding applies to 2015. 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	*2016*	*2015*	*2016*	*2015*	
Financial liabilities					
Finance lease obligation	1 891	2 739	1 891	2 739	Level 2
Non-current finance arrangement	6 207	3 038	6 207	3 038	Level 3
Non-current secured loan	7 543	455	7 543	455	Level 2
Total	**15 641**	**6 232**	**15 641**	**6 232**	

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.

Non-current finance arrangement (Level 3)

The carrying amount/fair value of the non-current financial arrangement is a function of expected future cash flows and a contractual repayment schedule which is dependent on the Group's future revenues. The carrying amount is on a present value technique using estimated future cash flows. The cash flows reflects the expected market development and the risk inherent in future revenues.

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 2016 the Group's operating revenue relates to contract OBS acquisition and to pre-funding multi-client survey.

Geographically, the operations are divided into 4 locations, being the Barents Sea (Norway), Malaysia, the Saudi Arabia and United Kingdom. The allocation of revenue to the geographical segments can be illustrated as follows:

In thousands of USD	Group	Group	Parent	Parent
Year	***2016***	***2015***	***2016***	***2015***
Barent Sea (Norway)	1 845	7 150	3 538	7 182
Malaysia	23 932	3 063	14 760	1 420
Saudi Arabia	33 119	4 895	20 814	4 895
United Kingdom	9	25 564	9	25 564
Total revenue and other income	**58 905**	**40 671**	**39 122**	**39 060**

5. Revenue and other income

In thousands of USD	Group	Group	Parent	Parent
Year	***2016***	***2015***	***2016***	***2015***
Contract revenue	57 059	34 871	9	31 808
Multi-client revenue	1 845	5 800	1 845	5 800
Intercompany revenue	0	0	37 268	1 452
Total revenue and other income	**58 905**	**40 671**	**39 122**	**39 060**

6. Operating expenses

In thousands of USD	Group	Group	Parent	Parent
Year	***2016***	***2015***	***2016***	***2015***
Cost of sales				
Charter hire and running expenses	19 008	17 758	9 395	17 758
Crew cost and travel	9 253	6 510	2 726	6 063
Fuel costs	1 811	2 997	367	2 997
Batteries and other instruments	5 557	1 373	5 435	1 373
Other cost of sales	3 410	2 790	2 150	2 311
Total cost of sales	**39 038**	**31 427**	**20 074**	**30 501**
Research and development cost				
Corporate and consultant costs	2 022	2 056	1 724	2 045
Total research and development cost	**2 022**	**2 056**	**1 724**	**2 045**
Selling, general and administrative costs				
Salary and social expenses	6 263	5 588	6 240	5 680
Administrative expenses	1 600	1 981	1 529	1 931
Total selling, general and administrative cost	**7 863**	**7 569**	**7 768**	**7 611**
Salary and social expenses				
Salary	4 791	4 055	4 753	4 161
Social security tax	625	606	658	606
Pension	261	254	253	246
Equity-settled share-based payment transactions	382	495	382	495
Other payments	205	178	193	171
Total salary and social expenses	**6 263**	**5 588**	**6 240**	**5 680**

Details fo the expense to the auditor of the Group, KPMG, and its related prectices for audit and non-audit services proveded during the year are set out below:

KPMG AUDITORS' REMUNERATION				
In thousands of USD	Group	Group	Parent	Parent
Year	*2016*	*2015*	*2016*	*2015*
Audit services				
Audit of annual financial statements	93	87	81	87
Other services				
Other assurance services	27	6	23	6
Total	**120**	**93**	**103**	**93**

7. Finance income and cost

In thousands of USD	Group	Group	Parent	Parent
Year	*2016*	*2015*	*2016*	*2015*
Interest income	15	49	10	49
Currency gains	1 578	159	1 268	151
Other financial items	0	75	0	99
Total finance income	**1 593**	**283**	**1 279**	**299**
Interest expense	1 203	261	521	259
Currency losses	1 526	122	1 144	123
Finance charges payable under finance lease	250	334	250	334
Fair value adjustment convertible loan	7	0	0	0
Total finance cost	**2 986**	**717**	**1 915**	**716**
Net finance costs	**1 393**	**434**	**636**	**416**

8. Cash and cash equivalents

In thousands of USD	Group	Group	Parent	Parent
Year	*2016*	*2015*	*2016*	*2015*
Unrestricted cash balances	18 741	11 248	2 145	11 218
Employee tax withholding accounts	234	187	227	177
Cash and cash equivalents	**18 974**	**11 435**	**2 372**	**11 395**

9. Other current assets

In thousands of USD	Group	Group	Parent	Parent
Year	*2016*	*2015*	*2016*	*2015*
Prepayments	99	995	7	979
Deposits	179	174	179	174
Intercompany receivables	0	0	13 829	1 709
Other receivables	6 867	4 081	8 208	1 018
Fuel stock	491	525	361	525
Battery stock	800	1 162	800	1 162
Total other current assets	**8 436**	**6 936**	**23 383**	**5 566**

10. Income tax

In thousands of USD	Group 2016	Group 2015	Parent 2016	Parent 2015
Current tax expense				
Current period	4 188	439	1 241	245
Total	**4 188**	**439**	**1 241**	**245**
Deferred tax expense				
Origination and reversal of temporary differences	-2 027	-1 242	-2 027	-1 242
Benefit of tax losses and other deferred tax benefits not recognised	2 027	1 242	2 027	1 242
Total	**0**	**0**	**0**	**0**
Numerical reconciliation between tax expense and pre-tax accounting profit				
Profit / (loss) before tax	**-12 507**	**-16 071**	**-12 006**	**-16 752**
Income tax at 25%	-3 127	-4 339	-3 002	-4 523
Adjusted for other tax regimes	7	9	0	0
Non-deductible expenses	235	3	219	3
Non-assessable income	0	0	0	0
Losses (recognised) / not recognised	3 561	4 520	2 853	4 520
Withholding tax paid	3 512	245	1 171	245
Total income tax expenses / (benefit)	**4 188**	**439**	**1 241**	**245**

The Group and Parent have unutilised tax losses of USD 19.7 million (2015: USD 22.5 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. The Norwegian tax rate (attributable to the Parent) is 25 percent (24% from 2017).

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 2016	Group 2015	Parent 2016	Parent 2015
Non-current assets	447	2 097	447	2 097
Current assets	0	0	0	0
Non-current liabilities	-2 049	-1 672	-2 049	-1 672
Current liabilities	0	0	0	0
Tax loss carry-forwards	-4 724	-5 621	-4 724	-5 621
Tax (assets) liabilities	-6 325	-5 196	-6 325	-5 196
Set off of tax	6 325	5 196	6 325	5 196
Net tax (assets) liabilities	**0**	**0**	**0**	**0**

Deferred tax assets and liabilities for 2015 is corrected to 25% tax from 27% tax used last year. These changes have no impact on tax expense for 2015 and deferred tax assets was not recognised.

11. Other current liabilities

In thousands of USD	Group	Group	Parent	Parent
Year	***2016***	***2015***	***2016***	***2015***
Other payables	385	502	367	472
Accrued expenses	4 879	2 847	1 149	2 294
Intercompany payables	0	0	0	301
Provisions holiday day	624	382	594	382
Other current liabilities	3	479	25	475
Total other current liabilities	**5 890**	**4 209**	**2 135**	**3 924**

12. Multi-client library

In thousands of USD		
Year	***2016***	***2015***
Cost		
Balance at 1 January	4 383	4 383
Additions	0	0
Disposals	0	0
Balance at 31 December	**4 383**	**4 383**
Amortisation		
Balance at 1 January	3 506	0
Amortisation for the year	877	3 506
Disposals	0	0
Impairment	0	0
Balance at 31 December	**4 383**	**3 506**
Carrying amounts		
at 1 January	877	4 383
at 31 December	**0**	**877**

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 2015	324	34 653	4 063	16 167	55 207
Asset completed and ready for intended use	0	20 331		-20 331	0
Additions	67	1 521	0	8 780	10 368
Disposals	0	0	0	0	0
Impairment	0	-277	0	0	-277
Balance at 31 December 2015	**391**	**56 228**	**4 063**	**4 616**	**65 298**
Balance at 1 January 2016	391	56 228	4 063	4 616	65 298
Asset completed and ready for intended use	0	10 327	0	-10 327	0
Additions	29	1 425	0	13 822	15 276
Disposals	0	0	0	0	0
Balance at 31.December 2016	**419**	**67 980**	**4 063**	**8 112**	**80 574**
Depreciation and impairment losses					
Balance at 1 January 2015	170	7 708	983	0	8 861
Depreciation for the year	82	8 381	786	0	9 249
Disposals	0	0	0	0	0
Impairment	0	-158	0	0	-158
Balance at 31 December 2015	**252**	**15 931**	**1 769**	**0**	**17 952**
Balance at 1 January 2016	252	15 931	1 769	0	17 952
Depreciation for the year	82	11 321	786	0	12 190
Disposals	0	0	0	0	0
Impairment	0	5 978	0	1 463	7 441
Balance at 31 December 2016	**335**	**33 230**	**2 556**	**1 463**	**37 583**
Carrying amounts					
at 1 January 2015	154	26 945	3 080	16 167	46 346
at 31 December 2015	139	40 297	2 294	4 616	47 346
at 1 January 2016	139	40 297	2 294	4 616	47 346
at 31 December 2016	85	34 750	1 507	6 649	42 991
Depreciation of the year	82	11 321	786	0	12 190
Depreciation capitalised and deferred - net	0	-1 421	0	0	-1 421
Depreciation charged to expense **at 31 Dec 16**	82	9 900	786	0	10 769

Useful life of equipment
Useful life of seismic equipment and office machines are 3-7 years.

Capitalisation
In 2016 Magseis has capitalised cost relating to the development of the seismic equipment of USD 274 thousands (2015: USD 1.5 million).

Impairment
Magseis has in 2016 recorded an impairment of USD 7 441 thousands (2015: USD 119 thousands).

14. Other 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	***2016***	***2015***
Cost		
Balance at 1 January	4 588	2 513
Additions	2 572	2 075
Disposals	0	0
Adjustment currency conversion	0	0
Balance at 31 December	**7 160**	**4 588**
Amortisation		
Balance at 1 January	1 045	574
Amortisation for the year	533	471
Disposals	0	0
Adjustment currency conversion	0	0
Balance at 31 December	**1 577**	**1 045**
Carrying amounts		
at 1 January	3 543	1 939
at 31 December	**5 583**	**3 543**

Development costs
Capitalisation of USD 2.6 million in 2016 and USD 2.1 million was capitalised in 2015.

15. Share capital and reserves

The shares of Magseis are listed on Oslo Axess.

Ordinary shares - Issued and fully paid		Number of shares	Share capital USD '000	Share premium reserve USD '000
At 1 January 2015		27 162 561	237	83 774
08 June 2015	Private placement of 2,655,453 shares at NOK 22 per share	2 655 453	17	7 451
	Capital raising costs	0	0	-280
At 31 December 2015		**29 818 014**	**254**	**90 945**
At 1 January 2016		29 818 014	254	90 945
6 May 2016	Private placement of 6,800,000 shares at NOK 12,50 per share	6 800 000	42	10 345
	Capital raising costs	0	0	-397
30 May 2016	Subsequent offering of 1,200,000 shares at NOK 12,50 per share	1 200 000	7	1 789
	Capital raising costs	0	0	-88
At 31 December 2016		**37 818 014**	**303**	**102 594**

No dividends were paid during the period ended 31 December 2016 (2015: USD 0).

20 LARGEST SHAREHOLDERS AS AT 31 DECEMBER 2016		
Shareholder	**Holdings**	
WESTCON GROUP AS	5 328 103	14.1 %
ANFAR INVEST AS	4 315 684	11.4 %
GEO INNOVA AS	3 905 050	10.3 %
CLIPPER A/S	2 158 409	5.7 %
VERDIPAPIRFONDET PARETO INVESTMENT	1 659 791	4.4 %
BARRUS CAPITAL AS	1 625 685	4.3 %
JPMORGAN CHASE BANK, N.A., LONDON	1 501 947	4.0 %
VPF NORDEA KAPITAL	1 499 165	4.0 %
OP-EUROPE EQUITY FUND	1 249 627	3.3 %
VPF NORDEA AVKASTNING	1 031 507	2.7 %
REDBACK AS	1 000 000	2.6 %
EUROCLEAR BANK N.V.	988 092	2.6 %
KLP AKSJENORGE	939 615	2.5 %
GNEIS AS	924 825	2.4 %
ALTITUDE CAPITAL AS	687 966	1.8 %
INVESCO PERP EURAN SMLER COMPS FD	638 048	1.7 %
KOMMUNAL LANDSPENSJONSKASSE	623 780	1.6 %
MP PENSJON PK	595 075	1.6 %
STOREBRAND VEKST VERDIPAPIRFOND	506 835	1.3 %
WESTMAR AS	400 400	1.1 %
Total 20 largest shareholders	**31 579 604**	**83.5 %**
Other shareholders	6 238 410	**16.5 %**
Total outstanding shareholders	**37 818 014**	**100.0 %**

16. Earnings per share

Group		
Year	*2016*	*2015*
Basic earnings / (loss) per share on ordinary shares	**-0.44**	**-0.55**
The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders number of ordinary shares outstanding		
Basic earnings / (loss) per share on weighted average number of shares		
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	**-0.48**	**-0.58**
Diluted earnings / (loss) per share	**-0.48**	**-0.58**
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. Loss will not be diluted.		
Reconciliation of earnings used in calculating earnings / (loss) per share		
in thousands		
Basic earnings / (loss) per share		
Profit / (loss) for the year	-16 695	-16 510
Number of ordinary shares outstanding	37 818	29 818
Profit / (loss) for the year	-16 695	-16 510
Weighted average number of ordinary shares outstanding	34 963	28 639
Diluted earnings / (loss) per share		
Profit / (loss) for the year	-16 695	-16 510
Weighted average number of ordinary shares outstanding (diluted)	34 976	30 427

17. Share-based payments

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 shares at the end of the grant and all options are equity settled.

In 2016, 530 000 share-options were granted to employees. The grant have a strike price between NOK 12.50 and NOK 15.30, and vesting criteria of which 20% become exercisable after one year, 30% become exercisable after two years and 50% become exercisable after three years.

2016			
Grant date / employees entitled	**Number of instruments**	**Vesting conditions**	**Contractual life of options**
As of 1 January 2016	1 984 520		1.62
Option grant to key management on 1 July 2016	280 000	*20% vest on 1 July 2017, 30% vest on 1 July 2018 and 50% vest on 1 July 2019*	3.50
Option grant to key management on 1 November 2016	250 000	*20% vest on 1 November 2017, 30% vest on 1 November 2018 and 50% vest on 1 November 2019*	3.84
As of 31 December 2016	**2 514 520**		

2015			
Grant date / employees entitled	**Number of instruments**	**Vesting conditions**	**Contractual life of options**
As of 1 January 2015	1 717 520		1.31
Option grant to key management on 20 February 2015	15 000	*20% vest on 20 February 2016, 30% vest on 20 February 2017 and 50% vest on 20 February 2018*	3.14
Option grant to key management on 5 March 2015	20 000	*20% vest on 5 March 2016, 30% vest on 5 March 2017 and 50% vest on 5 March 2018*	3.18
Option grant to associates on 18 September 2015	232 000	*20% vest on 18 September 2016, 30% vest on 18 September 2017 and 50% vest on 18 September 2018*	3.72
As of 31 December 2015	**1 984 520**		

Prices in USD	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**	**Number of options**
Year	***2016***	***2016***	***2015***	***2015***
Outstanding at 1 January	2.43	1 984 520	2.35	1 717 520
Forfeited during the period	2.63	-34 000	0	0
Exercised during the period	-	0	0	0
Expired during the period	2.53	-14 000		
Granted during the period	1.53	530 000	2.54	267 000
Outstanding at 31 December		**2 466 520**		**1 984 520**
Exercisable at 31 December	2.38	1 627 820	2.26	926 720

The options outstanding at 31 December 2016 have an exercise price in the range of USD 1.13 to USD 2.95 and a weighted average contractual life of 1.34 years. The Group recognised a share-based payment expense of USD 0.4 million in the period ended 31 December 2016 (2015: USD 0.6 million) in relations to share options issued.

Inputs for measurement of grant date for fair values

The grant date for fair value of all share-based payments plan was calculated using the Black-Scholes-Merton option pricing model. Expected volatility is estimated by consider historic average share price volatility of comparable listed entities. The inputs used in the measurement of the fair values at grant date of the 2016 and 2015 share-based payments plan are as following:

2016		
Prices in USD		
Fair value of share options and assumptions	***01 July 2016***	***01 November 2016***
Fair value at grant date (weighted average)	0.72	0.53
Share price at grant date	1.62	1.39
Exercise price	1.77 and 1.45	1.59
Expected volatility	60.00 %	60.00 %
Option life (years)	4.00	4.00
Expected dividends	0	0
Risk-free interest rate (weighted average)	0.50 %	0.80 %

2015			
Prices in USD			
Fair value of share options and assumptions	***20 February 2015***	***05 March 2015***	***18 September 2015***
Fair value at grant date (weighted average)	1.46	1.49	0.85
Share price at grant date	2.88	2.87	1.93
Exercise price	2.88	2.75	2.50
Expected volatility	75.00 %	75.00 %	75.00 %
Option life (years)	4.00	4.00	4.00
Expected dividends	0	0	0
Risk-free interest rate (weighted average)	0.77 %	0.96 %	0.82 %

18. Leases

Operating leases

In 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 2016 the remaining life of the lease is 2.0 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 0.9 million at 31 December 2016 (2015: USD 1.4 million). The Group has entered into two leases on commercial property. The leases are non-cancellable operating leases and have average remaining lives of 1.0 and 3.25 years. The table below sets out the future minimum lease payments of the arrangement based on full day rates for the vessel lease;

FUTURE MINIMUM LEASE PAYMENTS		
In thousands of USD	31 December 2016	31 December 2015
Less than one year	17 497	19 846
Between one and five years	17 560	34 803
More than five years	0	0
Total	**35 056**	**54 650**

OPERATING LEASE COST EXPENSED IN PROFIT AND LOSS		
In thousands of USD	31 December 2016	31 December 2015
Time charter leases	17 868	17 758
Office leases	496	485
Total	**18 364**	**18 243**

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. At 31 December 2016 the remaining life of the sale & leaseback agreement is 1.0 years and 11 months.

FUTURE MINIMUM LEASE PAYMENTS				
	31 December 2016		31 December 2015	
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	987	1 098	1 038
Between one and five years	1 002	904	2 097	1 702
More than five years	0	0	0	0
Total minimum lease payments	**2 097**	**1 891**	**3 195**	**2 740**
Less amounts representing finance charges	206	0	455	0
Present value of minimum lease payments	**1 891**	**1 891**	**2 740**	**2 740**

Refer to note 21 *Related parties* for further information about leases with related parties.

19. Other non-current financial liabilities

	Booked value	
In thousands of USD	**31 December 2016**	**31 December 2015**
Amortisation grace period time charter *	438	909
Senior unsecured loan facility **	0	455
Secured loan facility	7 543	0
Non-current finance arrangement	6 207	3 038
Total other non-current financial liabilities	**14 188**	**4 402**
Current portion of long-term liabilities	6 470	0
Curent lease obligations	1 411	848
Total current portion of obligations under finance lease and loan	**7 881**	**848**

** Refer to note 18 Leases for details.*
*** Refer to note 21 Related parties for details.*

Debt covenants	**In Compliance 31.12.2016**
Export Credit Norway	
Ratio (Net debt to EBITDA) equal or lower than 5	yes
Equity ratio min 30%	yes
Min. liquidity greater or equal to MUSD 5	yes
Innovation Norway	
Equity ratio min 30%	yes
Working capital min MNOK 25	yes

Secured loan facility

During 2016 Magseis increased non-current financial liabilities with debt financing received from Export Credit Norway and Innovation Norway, totalling USD 9.1.

Export Credit Norway liabilities relates to USD 4.1 millions with a duration to 2021 and Innovation Norway liabilities relates to USD 5.0 millions with duration to 2022.

The principal includes accumulated interest. The interest is in range of 4,15% to 5,5% for the loan facilities.

Non-current finance agreement

In September 2015 Magseis and Shell Global Solutions ("Shell") entered into a cooperation agreement related to their joint development program, where Shell funds parts of the development cost borne by Magseis. Due to the content of the arrangement, the funding is treated as a financial liability in the financial statements under Other non-current financial liabilities and amounts to USD 6.2 million at 31 December 2016 (2015: USD 3.0 million). The principal includes accumulated interest. The liability assumes successful commercialisation of the developed product. The royalty scheme ensures that Shell will receive its original investment back plus an agreed return upon that investment. If the project for some reason is not commercialised then there will be no royalty payments due and the liability will be reversed.

During 2016 an interest expense of USD 0.4 million has bene recognised in the profit and loss related to the agreement (2015: 0.2).

Current Portion of long-term liabilites

Pre-funding from BGP is included with USD 5.3 million.

20. Capital commitments

Future minimum payments relating to equipment are as follows:

In thousands of USD	31 December 2016	31 December 2015
Contracted but not yet provided for and payable:		
Within one year	10 987	6 886
One year later and no later than five years	0	0
Later than five years	0	0
Total	**10 987**	**6 886**

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

21. 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 2016*	*31 December 2016*
J P Grimnes (Redback)	Chairman, Non-executive	1 000 000	0
J M Drange	Director, Non-executive	0	0
J B Gateman (Geo Innova)	Director and Senior Vice President	3 905 050	175 000
B R Bachmann (Shell)	Director, Non-executive	1 501 947	0
I Gimse (Gneis)	CEO to 15 August 2016	924 825	515 000
I Horstad	CEO from 16 August 2016	16 000	250 000
M Ektvedt	CFO	0	281 580
B Jensen	COO	0	105 000
N H Heieren	CTO	0	56 000
J B Gateman (Geo Innova)	SVP	3 905 050	175 000
S Penty	VP	0	56 000
P Steen Hansen	VP	0	30 000
C R Berg	Chief Geophysicist	0	79 600
Total*		**7 347 822**	**1 373 180**

*J B Gateman is included in the table above only once.

Name	Position	Shares	Share options
Period		*31 December 2015*	*31 December 2015*
A Farestveit (Anfar Invest)	Chairman, Non-executive	3 819 684	160 000
N Matre (Westcon Group)	Director, Non-executive	5 328 103	0
J B Gateman (GEO Innova)	Director and Senior Vice President	3 745 050	175 000
B R Bachmann (Shell)	Director, Non-executive	0	0
M Thjømøe (Thjømøekranen)	Director, Non-executive	2 500	0
I Gimse (Gneis)	CEO	908 825	265 000
M Ektvedt	CFO	0	281 580
B Jensen	COO	0	105 000
Total		**13 804 162**	**986 580**

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 2016*	*31 December 2015*	*31 December 2016*	*31 December 2015*
Name						
J B Gateman	Consultant costs	(I)	267	171	0	39
N Matre/Westcon Group	Leases	(II)	21 928	19 541	3 470	3 673
N Matre/Westcon Group	Other services	(II)	891	1 798	0	24
Total			**22 986**	**21 510**	**3 470**	**3 736**

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

(II) *Relates to time charters (TC) for two vessels and a sale and leaseback arrangement. As part of the TC agreement for Artemis Athene, Westcon Group also delivers Marine Management services. As at 31 December 2016 the remaining time charter lease term is 2 years and the sale and leaseback is 1 years and 11 months.*

Senior unsecured loan
On 18 December 2015, shareholders and board member Anders Farestveit and Jan Gateman provided Magseis with a senior unsecured loan with a principal of NOK 4.0 million (approx. USD 450 thousands). The loan was paid back including interest in June 2016.

Investments in and transactions with subsidiaries (Parent)

During 2016 and 2015 Magseis ASA has transacted with its subsidiaries. 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 2016***	***31 December 2015***	***31 December 2016***	***31 December 2015***
Name						
Magseis Operations AS	Purchased crew services / liability	(I)	-1 343	259		
	Sold accounting services / receivable	(III)	28	-29		
	Purchased lease of equipment and seismic servcices/ liability	(IV)	20 824	0		
	Net liability				7 591	-28
Magseis Singapore Services Pte. Ltd.	Purchased administration services / liability	(II)	308	247		
	Sold TC and crew services / receivable	(II)	12 703	1 420		
	Sold accounting services	(III)	24	13		
	Net receivable				1 265	1 685
Total			**32 543**	**1 910**	**8 856**	**1 657**

(I) During 2016 and 2015 Magseis Operations AS has hired crew personnel to Magseis ASA.

(II) Magseis Singapore Services Pte. Ltd. has during 2016 and 2015 provided administration services to Magseis ASA. Magseis ASA has provided time charters and crew services to Magseis Singapore Services Pte. Ltd during first of 2016 and end of 2015 while operations in Malaysia.

(III) Magseis ASA has provided accounting services to both Magseis Operations AS and Magseis Singapore Services during 2016 and 2015.

(IV) Magseis ASA provided lease of equipment and seismic services to Magseis Operations AS from Mid May 2016 while operations in Saudi Arabia.

All intercompany transactions are based on the cost-plus method with a mark-up of 5%, except for lease of equipment based on DCF metod.

MANAGEMENT REMUNERATION					
In thousands of USD		Remuneration	Options	Pension	Total
2016					
Name	*Position*				
I Gimse	CEO to 15 Aug. 2016	183	42	10	234
I Horstad	CEO from 16 Aug. 2016	135	45	3	184
M Ektvedt	CFO	165	57	8	230
B Jensen	COO	157	38	9	204
N H Heieren	CTO	139	13	8	160
J B Gateman	SVP	0	13	0	13
S Penty	VP	135	5	11	151
P Steen Hansen	VP	126	11	8	145
C R Berg	Chief Geophysicist	163	6	9	178
Total		**1 203**	**230**	**66**	**1 499**
2015					
I Gimse	CEO	185	11	10	206
M Ektvedt	CFO	183	9	9	201
B Jensen	COO	160	6	9	175
J B Gateman	SVP	0	8	0	8
Total		**529**	**34**	**27**	**590**

All management receive their remuneration in NOK and calculated to USD by using the currency rate as of December 2016.

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.

Paid out remunerations to the board members are as follows:

REMUNERATION BOARD OF DIRECTORS, NOMINATION COMMITTEE AND AUDIT COMMITTEE		
		In thousands of USD
2016		
Name	*Position*	
Board of director's		
A Farestveit	Chairman, Non-executive (Jan- May 16)	35
M Thjømøe	Chairman, Non-executive (May - Sept 16)	44
N Matre	Director, Non-executive	29
J B Gateman	Director and Senior Vice President	29
B R Bachmann	Director, Non-executive	0
Nomination committee		
A Farestveit	Chairman, Non-executive	2
J Bleie	Committee member	2
Audit committee		
M Thjømøe	Chairman, Non-executive 2016	3
Total		**143**
2015		
Board of director's		
A Farestveit	Chairman, Non-executive	42
N Matre	Director, Non-executive	35
J B Gateman	Director and Senior Vice President	35
B R Bachmann	Director, Non-executive	35
M Thjømøe	Director, Non-executive	35
Nomination committee		
A Farestveit	Chairman, Non-executive	2
J Bleie	Committee member	2
Audit committee		
M Thjømøe	Chairman, Non-executive	4
A Farestveit	Committee member	2
Total		**193**

22. Investments in Subsidiaries

The Magseis Group consists of:

Company name	Country	Main Business
Magseis ASA (The Parent Company)	Norway	Geophysical services
Magseis Operations AS	Norway	Geophysical services
Magseis Technology AB	Sweden	Product development
Magseis Malaysia Sdn. Bhd.	Malaysia	Geophysical services
Magseis Singapore Services Pte. Ltd.	Singapore	Geophysical services
Magseis Do Brasil Ltda	Brazil	Geophysical services

PARENT COMPANY

					In USD		
Company name	Country	Main Business	Ownership	Voting Power	Net book value	Equity	Net profit 2016
Magseis Operations AS	Norway	Geophysical services	100 %	100 %	5 241	-1 949 482	-1 959 915
Magseis Technology AB	Sweden	Product development	100 %	100 %	5 982	17 059	11 310
Magseis Malaysia Sdn. Bhd.	Malaysia	Geophysical services	100 %	100 %	1	-929 516	-1 335 433
Magseis Singapore Services Pte. Ltd.	Singapore	Geophysical services	100 %	100 %	3 696	41 869	-145 828
Magseis Do Brasil Ltda	Brazil	Geophysical services	100 %	100 %	5 000	5 000	0

23. Subsequent events

On 17 March Magseis announced that together with its partner BGP, has been awarded an extension to the ongoing contract with BGP Arabia and Saudi Aramco to acquire additional ocean bottom seismic data block in the Red Sea. The project has an expected duration of 6-7 months and is expected to commence during April/May 2017, securing backlog into Q4 2017.

On 21 March Magseis announced that the Company had entered into an LOI, non-binding, with a large provider of offshore vessels regarding a potential charter of one of their vessels. Such agreement includes an option for the lease of certain seismic equipment.

On 24 March Magseis announced that the Company had successfully raised new equity capital of NOK 339.8 million and conducted a subsequent repair offering of NOK 6.0 million on 12 April 2017. The new issues were approved at an extraordinary general meeting 27 March 2017.

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To the Annual Shareholders' Meeting of Magseis ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Magseis ASA. The financial statements comprise:

- The financial statements of the parent company Magseis ASA (the "Company"), and the consolidated financial statements of Magseis ASA and its subsidiaries (the "Group"), which comprise the statements of financial position as at 31 December 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2016, 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.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Seismic contract accounting estimates

Reference is made to Note 2.3 Significant accounting judgements, estimates and assumptions, and Note 2.4 Summary of significant accounting policies.

The key audit matter	*How the matter was addressed in our audit*
Accounting for seismic service contracts is considered to be a risk area due to the significant judgement and estimation applied by management as well as the degree of complexity related to project execution risk and inherent risk in the contracts. The deferred recognition of mobilisation costs requires judgement in estimating the outcome of a contract which is often complex and involves assumptions regarding future events for which there may be little or no external corroborative evidence available. As such, these contract accounting estimates require significant attention during the audit and are subject to a high degree of auditor judgement.	Our audit procedures in this area included, among others: • We evaluated management's process for assessing the stage of completion and the method applied; • We assessed and challenged management's assessments regarding penalties and the need for risk contingencies; and • We assessed management's estimates of cost to complete, timing of the cost and the risk assessment related to forecast cost.

2. Going concern

Reference is made to Note 2.1 Basis of preparation, Note 3 Financial risk management, Note 23 Subsequent events, and the Board of Directors report.

The key audit matter	*How the matter was addressed in our audit*
The group is currently operating one vessel and has historically had a single source revenue stream on a per contract basis. Prior to the outcome of a tender awarded subsequent to year-end, there was limited contracted backlog. In order to continue expansion plans, the group is dependent on additional funding which was raised subsequent to year-end. The group has a focus on its cost and liquidity position. Management continuously evaluates the Group's working capital using cash flow forecasts that are based on contracted work orders and anticipated awards as well as the fixed cost base and planned investments. Going concern is considered to be a significant risk area as management makes assumptions which depend on factors beyond the Group's control, which affect the group's ability to continue as a going concern. The Group has a limited history of positive operating cash flows and net cash from operating activities in 2016 was USD -2 million. For the year ended 31 December 2016, the Group generated a loss of USD 17 million. This has required significant attention during the audit.	In assessing the appropriateness of the going concern assumption used in preparing the financial statements, our audit procedures included, among others: • We assessed the key assumptions in management's forecast cash flows for the next 12 months, and we compared the key input assumptions to external data where available; • We evaluated the cash flow requirements of the Group over the next 12 months based on budgets and forecasts; • We evaluated what forecast expenditure is committed and what could be considered discretionary; • We compared the consistency of forecasts used in the going concern assessment with those used for impairment calculations; • We considered the impact of subsequent events to the going concern assessment; and • We evaluated the adequacy of the Group's disclosure regarding going concern.

3. *Assessment of the carrying value of equipment and other intangible assets*

Reference is made to Note 2.3 Significant accounting judgements, estimates and assumptions, Note 2.4 Summary of significant accounting policies, Note 13 Equipment, and Note 14 Other intangible assets.

The key audit matter	*How the matter was addressed in our audit*
The impairment assessment of equipment and other intangible assets, with carrying values of USD 43 million and USD 6 million as of 31 December 2016 respectively, is considered to be a risk area due to the size of the balances, the specialised technological nature of the equipment, the limited amount of contracted backlog, the current economic environment and the general downturn in the seismic industry. The recoverable amount is determined based on value in use calculations which rely on external factors, managements' assumptions, and estimated future performance. Key assumptions applied in management's assumptions are future market development and conditions, and estimated timing of cash flows.	Our audit procedures in this area included, among others: • We evaluated management's assessment of impairment triggers; • We assessed the reasonableness of the discount rate applied with reference to market data; • We evaluated the timing and amounts of future cash flows; • We evaluated the historical accuracy of management's previous budgets and forecasts and challenged management on the current year cash flow forecasts; and • We assessed management's future business plan assumptions with reference to current market conditions, ongoing tendering activities by the Group, and any other available corroborating evidence.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, with the exception of our report on Other Legal and Regulatory Requirements below.

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

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

Responsibilities of the Board of Directors and the Chief Executive Officer for the Financial Statements

The Board of Directors and the Chief Executive Officer (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 21 April 2017

KPMG AS

Lone Frogner

Lone Frogner
State Authorised Public Accountant