Q4 2016

Magseis ASA

Fourth quarter and full year result

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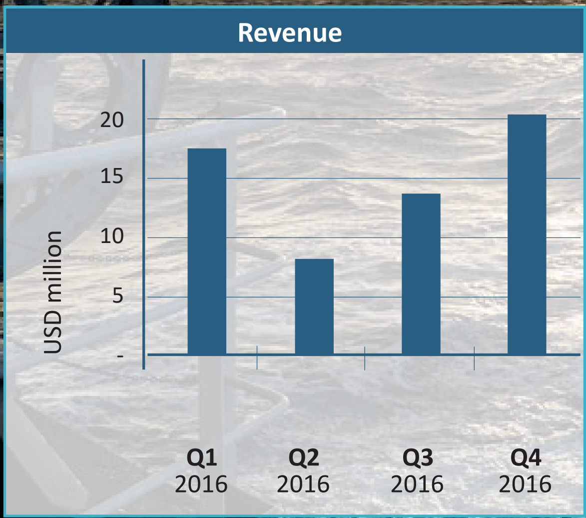
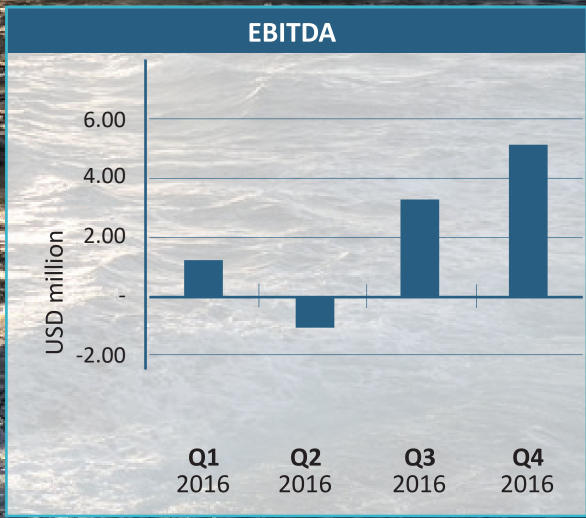
HIGHLIGHTS





FOURTH QUARTER 2016

- Award from ConocoPhillips for a 4D seabed seismic survey in the North Sea has triggered preparations for a second crew
- Production progressing according to plan together with BGP on Saudi Aramco’s S-78 project
- Revenue of USD 20.0 million compared to USD 5.5 million in 2015
- EBITDA of USD 5.5 million compared to USD -6.3 million in 2015
- EBIT of USD 1.9 million compared to USD -10.8 million in 2015
- Net Income of USD 0.1 million compared to USD -11.2 million in 2015

CEO STATEMENTS

The fourth quarter of 2016 represents the first full quarter of production from our ongoing operations in the Red Sea. During the period, production efficiency has steadily increased and the financial results highlight the outlook for 2017 and provide a solid baseline for further growth.

This caps a year during which Magseis has made great progress towards our goal of becoming the industry's leading provider of Ocean Bottom Seismic ("OBS") data. We have conducted continuous multi-vessel operations, operated a rolling spread of more than 4,000 nodes and provided seamless operations in areas with unparalleled variations in water depth, seabed topography and climatic conditions. When challenges have arisen we have shown that we can address them quickly and as a result, we are more confident than ever in the technical capability, efficiency and robustness of our system.

The safe and efficient operational performance has continued into 2017, making it likely that the ongoing project will be completed on time. Based on feedback from our client we are confident that the activity in the Red Sea will continue throughout 2017 and are excited by the potential in this region in the years ahead.

During December Magseis secured a first contract for ConocoPhillips for a 4D monitoring survey in the North Sea. This is a milestone for the company as we will start to operate two crews and a major step in our strategy to "work smarter together with our clients" in order to reduce the cost of OBS data. The operation will comprise 3,000 new nodes deployed by an ROV vessel while all node handling will be performed onshore in a mobile containerised setup. The crew will require a limited increase in staff and the required equipment is already in production. We believe this offering holds great potential to make regular reservoir monitoring affordable for a wide range of fields and we are currently pursuing several options for additional awards during 2017 and 2018.

As we have highlighted over the past few quarters, tender activity within the OBS segment has increased significantly and awards for 2017 already suggest a year-on-year increase of above 50% from 2016 levels. This is indeed encouraging and, combined with the longer-term prospects we see for the OBS industry and its most efficient providers, it provides support for the ongoing preparations for our next high-efficiency cable vessel which is expected to be operational by early 2018.

Idar Horstad - **CEO Magseis**

KEY FINANCIALS

In thousands of USD

Profit and loss	Q4 2016	Q4 2015	YTD 2016	YTD 2015
Revenues	20 024	5 535	58 905	40 671
Cost of sales	11 111	8 517	39 038	31 427
EBITDA	5 532	-6 276	8 506	-2 347
EBIT	1 894	-10 781	-11 114	-15 637
Net profit/loss	58	-11 221	-16 695	-16 510
Basic earnings per share	0.00	-0.37	-0.44	-0.58
Financial position				
Total assets			86 665	72 830
Total liabilities			37 620	19 169
Total equity			49 045	53 661
Equity ratio			56.6%	73.7%
Cash flow				
Net cash flow from operating activities			-2 117	-3 625

OPERATIONAL COMMENTS

Our crew continues to perform to the expectations set forth when endeavouring into the very challenging project that we're currently conducting in the Red Sea. As "winter" has been closing in on us with somewhat rougher seas and shorter days we have managed to keep the production rates up and even increase them through good communication and coordination with our partner BGP. While our vessel, the Artemis Athene, is well suited to operate relatively independent of the weather conditions experienced in the Red Sea, the shallow water and transition zone work conducted by BGP is more exposed. Careful planning, good cooperation and good resource management has allowed a steady increase in efficiency through the 4th quarter as both parties gradually have built up their experience with the local conditions and operational challenges.

The combined effort, where our partner BGP deploys our MASS nodes over the areas where the Artemis Athene is prevented to sail due to her draft, has again proven the flexibility and adaptability of our MASS node technology. The team is now conducting a seamless rolling operation, handling what is one of the largest equipment spreads and most complicated OBS surveys that have ever been performed.

We continue to gain confidence in our systems, build experience and tune our technology to give us the springboard that is required to take Magseis and the MASS solution to the next level. The proven reliability of the system paired with the ultra-compact and lightweight design allows Magseis to endeavour into projects and modes of operation that have so far been out of reach for traditional OBS technology. Magseis is currently preparing the next-generation Ocean Bottom Node (OBN) solution that will be deployed in the North Sea this summer. This will provide clients with a highly efficient and low cost OBN solution, fit for purpose and well within their initial cost estimates.

The G3-MASS miniaturised seismic node

Photo: Magseis

BOARD OF DIRECTORS REPORT

FINANCIAL REVIEW

Revenues

Revenues for the fourth quarter were USD 20.0 million. All revenues were related to the Saudi Aramco survey, which started during the third quarter. In comparison, the revenues for the fourth quarter of 2015 came in at USD 5.5 million, with multi-client revenue of USD 1.6 million and with only 15 days of contract revenue during the quarter.
The revenues for the full year of 2016 were USD 58.9 million compared to USD 40.7 million in 2015, of which multi-client revenues were USD 1.9 million in 2016 and USD 5.8 million in 2015.

Operational costs

Cost of sales in the fourth quarter of 2016 was USD 11.1 million compared to USD 8.5 million in the fourth quarter of 2015. The increase of cost is primarily due to the vessel being in full operation as well as previously incurred mobilisation and yard stay costs being amortised in the P&L compared to 2015, when the vessel was working on multi-client survey during the quarter and cost was capitalised to the multi-client library. Cost of sales for this quarter includes additional costs of USD 2.2 million related to late start compensation due under the ongoing contract. The late start compensation is amortised across the duration of the ongoing contract. This accrual may be reduced by the end of the survey.

For the full year of 2016, the cost of sales amounted to USD 39.0 million compared to USD 31.4 million during the same period in 2015. The increase reflects, in addition to the above, continuous operations for two vessels until mid-May compared to a one-vessel operation and a period of reduced time-charter hire due to the capacity upgrade last year.

Selling, general and administration expenses (SG&A) and other expenses in the fourth quarter amounted to USD 2.7 million, which is on a comparable level as the fourth quarter of 2015.

For the full year of 2016 SG&A and other expenses amounted to USD 9.3 million compared to USD 9.5 million during the same period of 2015. SG&A and other expenses have increased gradually along with the growing offshore organisation; a weaker NOK has offset some of the underlying cost increase as the company's accounting currency is USD.

Research and development

Research and development (R&D) expenses amounted to USD 0.7 million for the fourth quarter of 2016, which is on a comparable level as the fourth quarter of 2015.

R&D expenses for the full year of 2016 amounted to USD 2.0 million, in line with the full year of 2015 with USD 2.1 million.

Depreciation

Depreciation was USD 3.1 million during the fourth quarter compared to depreciation of USD 2.8 million in the fourth quarter of 2015. The depreciation has increased compared to last year due to more equipment in operation.

For the full year of 2016 depreciation amounted to USD 10.8 million compared to USD 9.2 million during the same period of 2015.

Amortisation

Fourth quarter amortisation of USD 0.1 million was related to other intangible assets only. This compares to USD 1.6 million for the same period in 2015 where the amortisation was related to both the multi-client library and other intangible assets.

For the full year of 2016 USD 1.4 million was amortised, where amortisation of the multi-client library amounted to USD 0.9 million. This compares to USD 4.0 million for the same period in 2015 where amortisation of multi-client library amounted to USD 3.5 million.

Impairment

Fourth quarter impairment of USD 0.4 million was related to improvements required to bring nodes damaged during the ongoing survey back to an operational state. This compares to a USD 0.1 million impairment for the same period in 2015.

For the full year of 2016 we recorded an impairment of USD 7.4 million which was primarily caused by a write-down of residual value for the G1 nodes, compared to USD 0.1 million for the same period of 2015.

EBITDA and EBIT

The EBITDA was USD 5.5 million in the fourth quarter compared to USD -6.3 million the fourth quarter of 2015. This EBITDA was generated as a result of a full quarter of operations compared to the same period of 2015 where only 15 days of contract revenue was recorded with the rest being multi-client and mobilisation.

EBIT was USD 1.9 million in the fourth quarter compared to USD -10.8 million during the same period in 2015. The increase in EBIT relates to the same factors as the increase in EBITDA described above.

EBITDA in the full year of 2016 was USD 8.5 million compared to USD -2.3 million for the same period of 2015. EBIT was USD -11.1 million for the full year of 2016, largely reflecting the above-mentioned impairments of USD 7.4 million, compared to USD -15.6 million for the full year of 2015.

Balance Sheet and Cash Flow

As of 31 December 2016, the Group's equity was USD 49.0 million compared to USD 53.7 million at 31 December 2015. The equity ratio was 56.6% as of end December 2016.

Tangibles and intangible assets amounted to USD 48.6 million as of 31 December 2016, compared to USD 51.8 million at the same date in 2015. The investments comprise seismic equipment on board Artemis Athene as well as capitalisation of expenses related to research and development projects per December 2016.

As of 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. Corresponding valuation of the multi-client library was USD 0.9 million a year ago.

As of 31 December 2016, current assets amounted to USD 38.1 million compared to USD 21.1 million as of 31 December 2015, Cash and cash equivalents was USD 19.0 million compared to USD 11.4 million as of 31 December 2015.

Non-current liabilities increased to USD 15.1 million as of 31 December 2016, from USD 6.3 million at the same date in 2015. This is mainly related to debt financing from Export Credit Norway and "Innovasjon Norge" totalling USD 9.1 million. 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. The current portion of long-term debt amounted to USD 2.6 million as of December 2016.

Current liabilities as of 31 December 2016, amounted to USD 22.5 million compared to USD 12.9 million as of 31 December 2015, The increase is mainly due to 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.

Cash flow from operating activities was USD -2.1 million in the full year of 2016 compared to USD -3.6 million in the same period of 2015. Mobilisation and yard-stay with upgrades of seismic equipment during 2016 affected the operational cash flow negatively.

The net cash outflow from investing activities amounted to USD -16.5 million in the full year of 2016 compared to USD -15.9 million in the same period of 2015 when 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.

Cash flow from finance activities was USD 26.1 million for the full year of 2016 compared to USD 9.3 in the same period of 2015. The proceed are related to the cooperation agreement with Shell Global Solutions, the pre-funding agreement with BGP, loans from Export Credit Norway and "Innovasjon Norge" as well as proceeds from share capital increase, offset by instalments and paid interest relating to the finance lease.

Employees

As of 31 December 2016, Magseis had a total of 83 full-time employees (31 December 2015: 77) including the offshore seismic crew of 42 employees (31 December 2015: 42).

Outlook

Production is now well into the second half of the S-78 survey in the Red Sea and we have seen a significant improvement in efficiency during the beginning of 2017. With the excellent data quality and operational efficiency delivered by the combined Magseis/BGP crew coupled with the feedback from our client, we remain confident that further work will be awarded and that our crew will remain in the region throughout 2017.

Preparations for our second, ROV-based, crew are well underway. This will start operating for ConocoPhillips during the spring of 2017 and we believe the modular design and short rigging period required will make this offering a highly sought-after option for clients looking for a low-cost and flexible way to monitor the developments in their reservoirs.

The prospects for the OBS market continue to improve and the pipeline of potential tenders is strong. Our industry leading technology and strong operating track record places Magseis in a unique position to capture a substantial share of the expected market growth. The Company is currently limited by its crew and node capacity and has therefore engaged financial advisors to advise on the financing of additional capacity in order to expand its reach and ability to take on more projects.

STATEMENT OF FINANCIAL COMPLIENCE

We confirm, to the best of our knowledge, that the condensed consolidated interim financial statements for the period 1 January to 31 December 2016 have been prepared in accordance with current applicable accounting standards and IAS 34 Interim Financial Reporting, and gives a true and fair view of the assets, liabilities, financial position and results of the Group. We also confirm, to the best of our knowledge that the condensed consolidated interim financial statements present a fairly view of the development and performance of the business during the period, and together with the 2015 Annual Report a description of the principal risks and uncertainties facing the Group.

Board of Directors of Magseis ASA,
Lysaker, 23 February 2017

Jan P. Grimnes,
Chairman

Jan Gateman,
Director and Senior Vice President

Bettina R. Bachmann,
Non-executive Director

Jan M. Drange,
Non-executive Director

Idar Horstad
Chief Executive Officer

20 LARGEST SHAREHOLDERS 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 %**

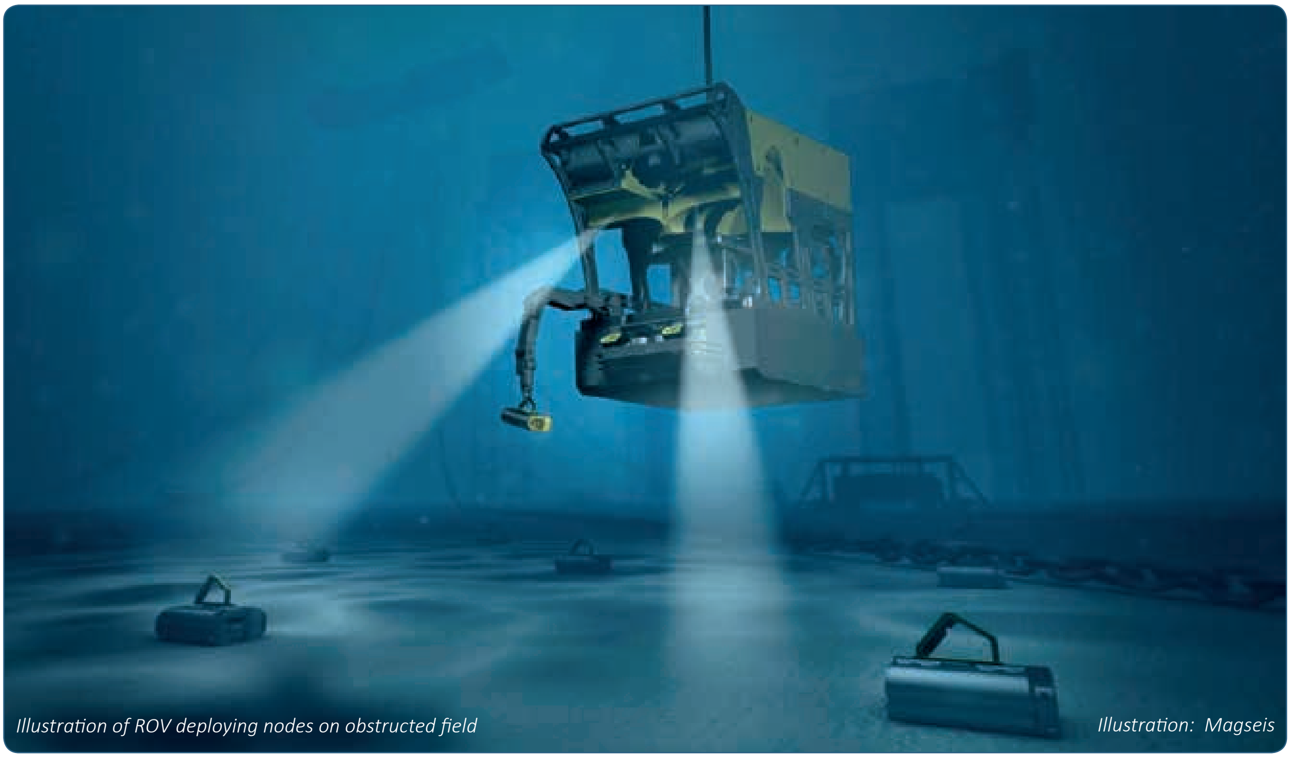


Illustration of ROV deploying nodes on obstructed field *Illustration: Magseis*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of USD	*Note*	**Q4 2016** *(unaudited)*	**YTD 2016** *(unaudited)*	**Q4 2015** *(unaudited)*	**YTD 2015** *(audited)*
REVENUE AND OTHER INCOME					
Revenue	*4*	20 024	58 905	5 535	40 671
Total revenue and other income		**20 024**	**58 905**	**5 535**	**40 671**
OPERATING EXPENSES					
Cost of sales	*6*	11 111	39 038	8 517	31 427
Research and development expenses		660	2 022	634	2 056
Selling, general and administrative costs		2 287	7 863	2 060	7 569
Other expenses		435	1 475	600	1 966
Depreciation	*5*	3 111	10 769	2 820	9 193
Amortisation	*6,7*	133	1 409	1 601	3 978
Impairment	*5*	393	7 441	84	119
Total operating expenses		**18 130**	**70 018**	**16 316**	**56 308**
OPERATING PROFIT (LOSS)		**1 894**	**-11 114**	**-10 781**	**-15 637**
FINANCIAL INCOME AND EXPENSES					
Finance income		398	1 593	67	283
Finance costs		-770	-2 986	-313	- 717
Net finance costs		**-373**	**-1 393**	**-246**	**- 434**
NET PROFIT (LOSS) BEFORE TAX		**1 521**	**-12 507**	**-11 027**	**-16 071**
Income tax expense		1 463	4 188	194	439
NET PROFIT (LOSS)		**58**	**-16 695**	**-11 221**	**-16 510**
Basic earnings (loss) per share		0.00	-0.44	-0.37	-0.58
Diluted earnings (loss) per share		0.00	-0.44	-0.37	-0.58
OTHER COMPREHENSIVE INCOME					
Currency exchange differences		0	0	0	0
Total comprehensive income (loss) for the period, attributable to Owners of the Company		**58**	**-16 695**	**-11 221**	**-16 510**

CONDENSED CONSOLIDATED BALANCE SHEET

In thousands of USD	*Note*	**Year End 2016** *(unaudited)*	**Year End 2015** *(audited)*
ASSETS			
Non-current assets			
Equipment	*5*	42 991	47 346
Multi-client library	*6*	0	877
Intangible assets	*7*	5 583	3 543
Total non-current assets		**48 574**	**51 766**
Current assets			
Cash and cash equivalents		18 974	11 435
Trade receivables		10 681	2 693
Other current assets		8 436	6 936
Total current assets		**38 092**	**21 064**
TOTAL ASSETS		**86 665**	**72 830**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*8*	303	254
Share premium	*8*	102 594	90 945
Other equity		3 012	2 630
Retained earnings		-51 740	-35 045
Currency translation reserve		-5 124	-5 123
Total equity attributable to equity holders of the Company		**49 045**	**53 661**
TOTAL EQUITY		**49 045**	**53 661**
LIABILITIES			
Non-current liabilities			
Obligation under finance lease	*10*	951	1 891
Other non-current financial liabilities		14 188	4 402
Total non-current liabilities		**15 139**	**6 293**
Current liabilities			
Trade payables		5 870	7 607
Current tax payable		2 841	212
Current portion of obligations under finance lease	*10*	7 881	848
Other current liabilities		5 890	4 209
Total current liabilities		**22 481**	**12 876**
TOTAL LIABILITIES		**37 620**	**19 169**
TOTAL EQUITY AND LIABILITIES		**86 665**	**72 830**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of USD	Share capital	Share premium reserve	Share based payments reserve	Retained earnings	Currency trans-lation reserve	Total
Balance at 1 January 2015	**237**	**83 755**	**2 039**	**-18 517**	**-5 123**	**62 391**
Adjustments to the opening balance	0	19	0	-18	0	1
Adjusted balance at 1 January 2015	**237**	**83 774**	**2 039**	**-18 535**	**-5 123**	**62 392**
Profit / (loss) for the period	0	0	0	-16 510	0	-16 510
Other comprehensive income	0	0	0	0	0	0
Total comprehensive income for the period	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	**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	**303**	**102 594**	**3 012**	**-51 740**	**-5 124**	**49 046**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

In thousands of USD	Note	Q4 2016 (unaudited)	YTD 2016 (unaudited)	Q4 2015 (unaudited)	YTD 2015 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit / (Loss) before tax		1 521	-12 507	-11 027	-16 071
Adjustment for:					
Income tax paid		-27	-64	0	0
Withholding tax paid		-1 069	-1 069	-194	-439
Deferred lease discount amortisation		-119	-470	-119	-460
Depreciation and amortisation	*5, 6, 7*	3 244	12 179	6 453	13 171
Impairment	*5*	393	7 441	84	119
Gain on currency forward contract		0	0	75	0
Share based payments expense		78	382	135	591
Interest expense		553	1 452	157	595
Interest income		-8	-15	-7	-49
Working capital adjustments:					
(Increase) / decrease in current assets		5 021	-9 395	-736	2 488
Increase / (decrease) in trade and other payables and accruals		-952	-51	2 604	-3 569
		4 068	-9 447	1 868	-1 081
Net cash from operating activities		**8 637**	**-2 117**	**-2 576**	**-3 625**
Cash flows from investing activities					
Interest received		8	15	7	49
Acquisition of equipment	*5*	-71	-13 906	-2 033	-10 133
Payments for capitalised development and intangibles	*7*	-235	-2 572	-762	-1 389
Multi-client library investments	*6*	0	0	-3 031	-4 383
Net cash used in investing activities		**-298**	**-16 463**	**-5 819**	**-15 856**
Cash flows from financing activities					
Proceeds from loan		1 522	20 306	1 680	3 493
Payment of finance lease obligation and loan		-3 804	-4 431	-200	-761
Proceeds from issue of share capital		0	12 183	0	7 468
Expenses related to issue of share capital		0	-485	2	-281
Interest paid		-553	-1 452	-157	-595
Net cash from financing activities		**-2 836**	**26 120**	**1 325**	**9 324**
Net change in cash and cash equivalents		5 503	7 540	-7 070	-10 157
Cash and cash equivalents at 1 January		13 471	11 435	18 505	21 591
Net foreign exchange difference		0	0	0	0
Cash and cash equivalents at period end		**18 974**	**18 974**	**11 435**	**11 434**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 condensed consolidated interim financial statements comprise Magseis ASA (referred to as the "Company") and its subsidiaries (together referred to as "Magseis" or the "Group"). The Group is primarily involved in marine seismic operations and seismic related activities.

2.1 Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).
The condensed consolidated interim financial statements does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements as of 31 December 2015.

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 23 February 2017

(b) Basis of measurement

The condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared on the going concern basis.

(d) Functional and presentation currency

The Group's functional and presentation currency has been United States Dollars (USD). All financial information is presented in USD and has been rounded to the nearest thousand unless otherwise stated.

(e) 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.

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.

2.2 Basis for consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries as of 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. The accounting judgements, estimates and assumptions used to prepare the condensed consolidated interim financial statements are the same as those used to prepare the 2015 annual financial statements.

2.4 Summary of significant accounting policies

The accounting principles used to prepare the condensed consolidated interim financial statements are the same as those used to prepare the 2015 annual financial statements. There are no new standards effective in 2016 that have had a significant impact to the Group's financial statements.

3. 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.

4. Revenues

In thousands of USD	Q4 2016	Q4 2015	YTD 2016	YTD 2015
Contract revenue	20 024	3 978	57 059	34 871
Multi-client revenue	0	1 557	1 845	5 800
Total revenue and other income	**20 024**	**5 535**	**58 905**	**40 671**

5. Equipment

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	0	-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	4 617	65 299
Asset completed and ready for intended use	0	10 327	0	-10 327	0
Additions	29	1 425	0	12 359	13 813
Disposals	0	0	0	0	0
Impairment	0	-15 985	0	0	-15 985
Balance at 31 December 2016	**419**	**51 996**	**4 063**	**6 649**	**63 127**
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	-10 007	0	0	-10 007
Balance at 31 December 2016	**335**	**17 245**	**2 556**	**0**	**20 136**
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	40 298	2 294	4 617	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 December 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 1 278 thousands).

Impairment

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

6. Multi-client library

In thousands of USD	**31.12.2016**	**31.12.2015**
Cost		
Balance at 1 January 16	4 383	4 383
Additions	0	0
Disposals	0	0
Balance at 31 December	**4 383**	**4 383**
Amortisation		
Balance at 1 January 16	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 16	877	4 383
Balance at 31 December	**0**	**877**

7. Other intangible assets

In thousands of USD	YTD 2016	YTD 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
Balance 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.

8. Share capital and reserves

The shares of Magseis are listed on Oslo Axess.

SHARE CAPITAL ISSUED		Number of shares	Share capital USD '000	Share premium reserve USD '000
Ordinary shares - Issued and fully paid				
At 1 January 2015		27 162 561	237	83 774
8 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**
Ordinary shares - Issued and fully paid				
At 1 January 2016		29 818 014	254	90 945
06 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).

9. Related parties

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:

RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES:						
In thousands of USD			Transaction value		Balance outstanding	
Name	Transactions	Note	31 Dec.2016	31 Dec.2015	31 Dec.2016	31 Dec.2015
J B Gateman	Consultant costs	(I)	167	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 one vessel 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 seniuor unsecured loan with a principal of NOK 4.0 million (approx. USD 450 thousands). The loan was paid back including interest in June 2016.

10. Leases

Operating leases

The TC agreements with Westcon Group (related party) is classified as an operating lease. The table below sets out the future minimum lease payments of the arrangement based on full day rates:

FUTURE MINIMUM LEASE PAYMENTS OPERATING LEASES		
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**	**54 649**

Finance lease

The sale and leaseback arrangement with Westcon Group (related party) is treated as a finance lease. Future minimum lease payments under the finance lease together with the present value of the net minimum lease payments are as follows:

FUTURE MINIMUM LEASE PAYMENTS FINANCE LEASES				
	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 9 Related parties for further information about leases with related parties.

11. Capital commitments

Future minimum commitments 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**

magseis

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