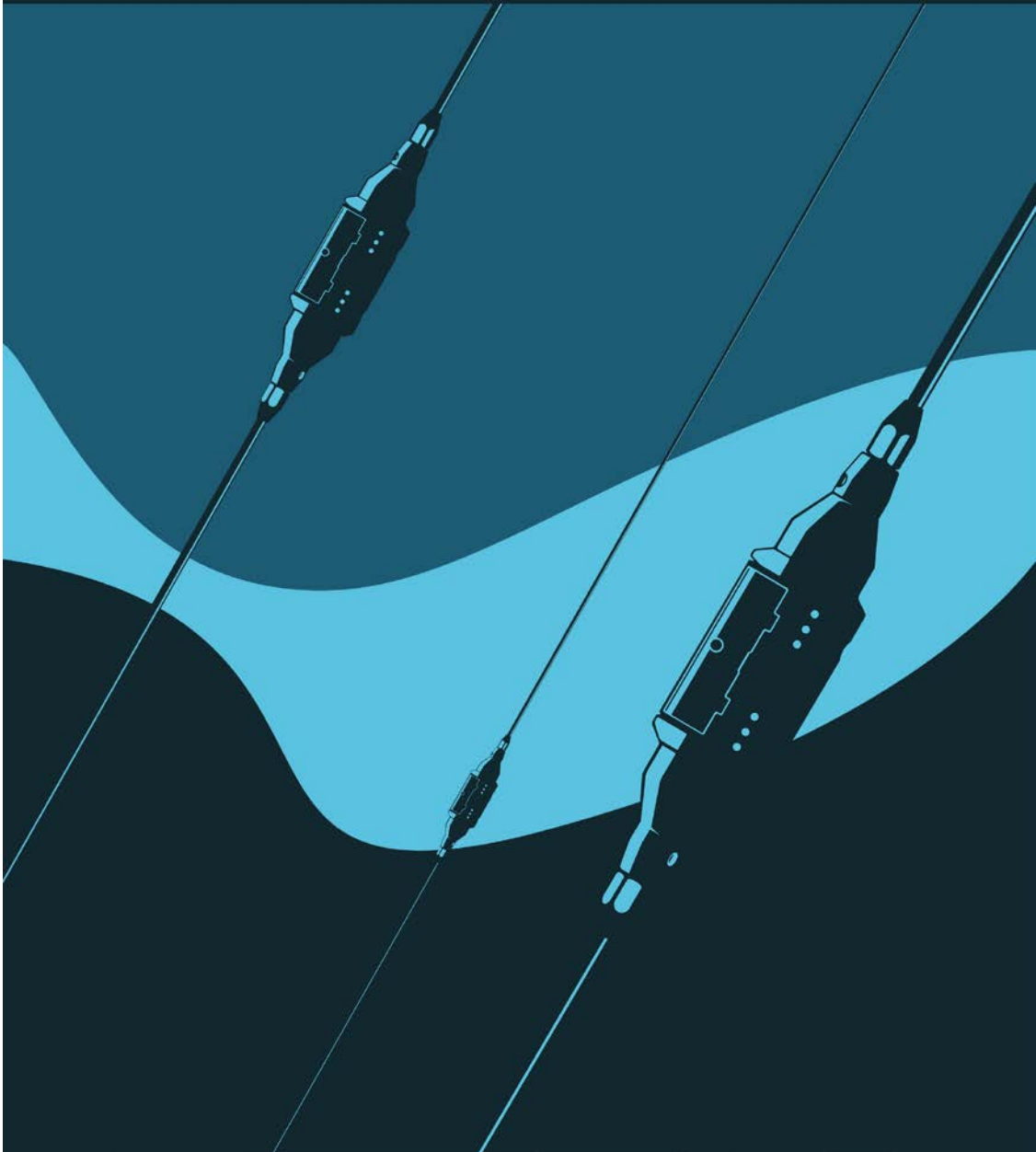


# MagSeis AS



Interim condensed consolidated financial statements

**31 March 2014**

## Board of Directors' Report

### Company overview

MagSeis comprises of MagSeis AS (the "Company"), Magseis Operations AS and Magseis Technology Filial (together referred to as "MagSeis" or the "Group"). The Group commenced its first commercial project for Statoil ASA in October 2013 on the Albatross and Snøhvit fields in the Barents Sea. During 2013, MagSeis entered into a five-year frame agreement with Statoil under which two surveys were awarded for 2014, providing a solid foundation for continued development and growth.

MagSeis' business model is to deliver OBS acquisition services to oil and gas companies world-wide. The Company provides survey design and planning as well as offshore acquisition services. The subsequent data processing and interpretation services will be conducted by third parties selected by the clients themselves.

Working with leading industry partners such as Statoil, Shell and the Westcon Group, MagSeis is rapidly developing the organisation in order for future growth.

The Group's head office is located in Lysaker, Norway with additional offices in Bergen, Norway and Kista, Sweden.

### Highlights

- In Q1 2014, MagSeis continued its survey on the Albatross and Snøhvit fields
- In February and March 2014, the Group successfully conducted a survey for Talisman on the Varg field. The survey proved that the Group's seismic system enables work in challenging conditions with close passes and obstructions on the seabed
- In April 2014, MagSeis AS successfully conducted a new equity issue of NOK 120 million to finance an expansion of equipment on Artemis Athene and long lead items for a second vessel
- In April 2014, the Group received work orders from Statoil for surveys on the Gullfaks and Oseberg fields to be commenced in Q2 and Q3 respectively
- In May 2014, MagSeis AS signed agreement with Shell Technology Ventures B.V. for a USD 4 million convertible loan
- MagSeis continued its preparation towards a stock exchange listing in Q2 2014

### Financial review

The Group generated a net profit in the first quarter of 2014 of NOK 2.0 million (2013: loss NOK 2.0 million). The profit results primarily from acquisition on Albatross and Varg fields. Magseis has continued its work related to the further development and testing of the Group's proprietary MASS system as well as gradual development of the organisation. The Group expects the net profit to increase gradually during 2014.

The cash balance at 31 March 2014 was NOK 44.9 million (2013: NOK 205.4 million). In the first quarter in 2014 the operating cash inflow was NOK 5.9 million (2013: NOK 0.9 million); investing outflow NOK 1.1 million (mainly due to development of the second generation proprietary MASS system) compared to NOK 53.1 million in 2013; and financing activities outflow of NOK 1.7 million compared NOK 0 million in 2013.

### Outlook and Going Concern

In April 2014 the Group received work orders for providing 4D OBS acquisition services for Statoil ASA on the Oseberg and Gullfaks fields during 2014. The expected duration of the work is approximately 120 days depending on weather and


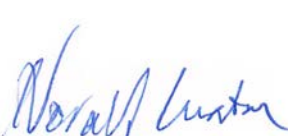

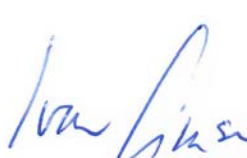
interference. Subsequent to 31 March 2014, the Group has completed a private placement of NOK 120 million primarily to fund the further development of operations and equipment. Following this capital raising and with backlog through Q3 2014, the Board is confident that the operations and expansion of the Group has sufficient funding for the coming year. The Board believes the going concern position and risks remain as described in the 2013 Annual Report. The financial statements have been prepared based on the assumption of a going concern.

**Statement on Financial Compliance**

We confirm, to the best of our knowledge, that the condensed consolidated financial statements for the period 1 January to 31 March 2014 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 financial statements include a true and fair review of the development and performance of the business during the period, and together with the 2013 Annual Report a description of the principal risks and uncertainties facing the Group.

Board of Directors of MagSeis AS

Lysaker, 13 May 2014

			
.....	.....	.....	.....
Anders Farestveit Chairman	Noralf Matre Director	Jan Gateman Senior Vice President	Ivar Gimse CEO

## Condensed consolidated statement of comprehensive income

in thousands of NOK

<i>Note</i>	Q1 2014 (unaudited)	Q1 2013 (unaudited)	2013 (audited)
<b>REVENUE AND OTHER INCOME</b>			
Revenue	84,413	0	74,128
<b>Total revenue and other income</b>	<b>84,413</b>	<b>0</b>	<b>74,128</b>
<b>OPERATING EXPENSES</b>			
Cost of sales	55,800	0	59,868
Research and development expenses	1,339	437	8,243
Selling, general and administrative costs	14,844	2,888	46,435
Depreciation and amortisation	11,200	247	11,968
<b>Total operating expenses</b>	<b>83,183</b>	<b>3,572</b>	<b>126,514</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>1,230</b>	<b>-3,572</b>	<b>-52,386</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Finance income	1,964	1,874	3,803
Finance costs	-1,226	-291	-3,227
<b>Net finance costs</b>	<b>738</b>	<b>1,583</b>	<b>576</b>
<b>NET PROFIT (LOSS) BEFORE TAX</b>	<b>1,968</b>	<b>-1,989</b>	<b>-51,810</b>
Income tax expense	0	0	0
<b>NET PROFIT (LOSS)</b>	<b>1,968</b>	<b>-1,989</b>	<b>-51,810</b>
Basic earnings (loss) per share ( <i>in NOK</i> )	1.87	-1.89	-49.19
Diluted earnings (loss) per share ( <i>in NOK</i> )	1.74	-1.89	-49.19
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income (loss) for the period	0	0	0
<b>Total comprehensive income (loss) for the period, attributable to Owners of the Company</b>	<b>1,968</b>	<b>-1,989</b>	<b>-51,810</b>

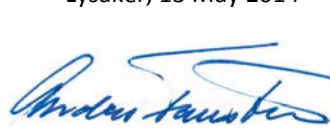
## Condensed consolidated statement of financial position

in thousands of NOK

	Note	Q1 2014 (unaudited)	Q1 2013 (unaudited)	2013 (audited)
<b>ASSETS</b>				
Non-current assets				
Equipment	4	224,757	60,149	227,182
Intangible assets	5	14,056	13,075	13,412
<b>Total non-current assets</b>		<b>238,813</b>	<b>73,224</b>	<b>240,594</b>
Current assets				
Cash and cash equivalents		44,929	205,422	41,780
Trade receivables		32,060	0	55,973
Deferred steaming costs		779	0	0
Other current assets		37,079	48,994	18,540
<b>Total current assets</b>		<b>114,847</b>	<b>254,416</b>	<b>116,293</b>
<b>TOTAL ASSETS</b>		<b>353,660</b>	<b>327,640</b>	<b>356,887</b>
<b>EQUITY AND LIABILITIES</b>				
Shareholders' equity				
Share capital	6	1,053	1,053	1,053
Share premium	6	338,504	338,504	338,504
Other equity		7,898	1,347	6,177
Retained earnings		-74,984	-27,130	-76,951
<b>Total equity attributable to equity holders of the Company</b>		<b>272,471</b>	<b>313,774</b>	<b>268,783</b>
<b>TOTAL EQUITY</b>		<b>272,471</b>	<b>313,774</b>	<b>268,783</b>
<b>LIABILITIES</b>				
Non-current liabilities				
Obligation under finance lease	9	19,880	0	21,298
Other non-current financial liabilities		10,397	0	11,357
<b>Total non-current liabilities</b>		<b>30,277</b>	<b>0</b>	<b>32,655</b>
Current liabilities				
Trade payables		16,526	9,364	26,372
Current tax payable		0	208	208
Current portion of obligations under finance lease	9	4,212	0	4,170
Other current liabilities		30,174	4,294	24,699
<b>Total current liabilities</b>		<b>50,912</b>	<b>13,866</b>	<b>55,449</b>
<b>TOTAL LIABILITIES</b>		<b>81,189</b>	<b>13,866</b>	<b>88,104</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>353,660</b>	<b>327,640</b>	<b>356,887</b>

Board of Directors of MagSeis AS

Lysaker, 13 May 2014


Anders Farestveit  
Chairman

Noralf Matre  
Director

Jan Gateman  
Senior Vice President

Ivar Gimse  
CEO

## Condensed consolidated statement of changes in equity

<i>in thousands of NOK</i>		Share capital	Share premium reserve	Share based payments reserve	Retained earnings	Total
	Note					
Balance at 1 January 2013		1,053	338,504	815	-25,141	315,231
Profit / (loss) for the period		0	0	0	-1,989	-1,989
Other comprehensive income		0	0	0	0	0
Total comprehensive income for the period		0	0	0	-1,989	-1,989
Share-based payments (options)		0	0	532	0	532
<b>Balance at 31 March 2013</b>		<b>1,053</b>	<b>338,504</b>	<b>1,347</b>	<b>-27,130</b>	<b>313,774</b>
Balance at 1 January 2014		1,053	338,504	6,177	-76,951	268,783
Profit / (loss) for the period		0	0	0	1,967	1,967
Other comprehensive income		0	0	0	0	0
Total comprehensive income for the period		0	0	0	1,967	1,967
Share-based payments (options)		0	0	1,720	0	1,720
<b>Balance at 31 March 2014</b>		<b>1,053</b>	<b>338,504</b>	<b>7,898</b>	<b>-74,984</b>	<b>272,471</b>

## Condensed consolidated statement of cash flow

in thousands of NOK

<i>Note</i>	Q1 2014 (unaudited)	Q1 2013 (unaudited)	2013 (audited)
<b>Cash flows from operating activities</b>			
Profit / (Loss) before tax	1,967	-1,989	-51,810
<b>Adjustment for:</b>			
Income tax paid	-208	0	0
Depreciation and amortisation	11,200	247	11,968
Deferred lease discount amortisation	-680	0	13,509
Deferred steaming costs	-779	0	0
Share based payments expense	1,720	532	5,362
Interest expense	685	8	689
Interest income	-290	-1,874	-3,691
Revaluation of foreign currency exchange	-591	0	441
<b>Working capital adjustments:</b>			
(Increase) / decrease in current assets	5,373	1,815	-56,725
Increase / (decrease) in trade and other payables and accruals	-12,469	2,161	22,687
	-7,096	3,976	-34,038
<b>Net cash from operating activities</b>	<b>5,928</b>	<b>900</b>	<b>-57,570</b>
<b>Cash flows from investing activities</b>			
Interest received	290	1,874	3,691
Investment in subsidiary	0	0	0
Acquisition of equipment	-44	-54,989	-184,457
Payments for capitalised development and intangibles	-1,350	0	-1,951
<b>Net cash used in investing activities</b>	<b>-1,104</b>	<b>-53,115</b>	<b>-182,717</b>
<b>Cash flows from financing activities</b>			
Proceeds from sale and leaseback	0	0	25,000
Payment of finance lease obligation	-990	0	-334
Interest paid	-685	-8	-244
<b>Net cash from financing activities</b>	<b>-1,675</b>	<b>-8</b>	<b>24,422</b>
<b>Net change in cash and cash equivalents</b>	<b>3,149</b>	<b>-52,223</b>	<b>-215,865</b>
Cash and cash equivalents at 1 January	41,780	257,645	257,645
<b>Cash and cash equivalents at 31 March</b>	<b>44,929</b>	<b>205,422</b>	<b>41,780</b>

## Notes to the condensed consolidated interim financial statements

### 1. Reporting entity

MagSeis AS is a limited liability company 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 AS 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 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 interim condensed 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 at 31 December 2013.

The condensed consolidated financial statements were authorised for issue by the Board of Directors on 13 May 2014.

#### (b) Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis.

#### (c) Going concern

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

#### (d) Functional and presentation currency

The condensed consolidated financial statements are presented in Norwegian Kroner (NOK), which is also the Group's functional currency. All financial information presented in NOK has been rounded to the nearest thousand unless otherwise stated.

### 2.2 Basis for consolidation

The condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 March 2014. Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the 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 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 annual financial statements. There are no new standards effective in 2014 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. Equipment

*in thousands of NOK*

	Office machines	Seismic equipment	Seismic equipment under finance lease	Under construction	Total
<b>Cost</b>					
Balance at 1 January 2013	684	3,701	0	37,510	41,895
Additions	158	0	0	18,782	18,940
Disposals	0	0	0	0	0
<b>Balance at 31 March 2013</b>	<b>842</b>	<b>3,701</b>	<b>0</b>	<b>56,292</b>	<b>60,835</b>
Balance at 1 January 2014	1,230	192,333	25,000	19,561	238,124
Additions	218	793	0	7,085	8,096
Disposals	0	0	0	0	0
<b>Balance at 31 March 2014</b>	<b>1,448</b>	<b>193,126</b>	<b>25,000</b>	<b>26,646</b>	<b>246,220</b>
<b>Depreciation and impairment losses</b>					
Balance at 1 January 2013	188	251	0	0	439
Depreciation for the year	62	185	0	0	247
Disposals	0	0	0	0	0
<b>Balance at 31 March 2013</b>	<b>250</b>	<b>436</b>	<b>0</b>	<b>0</b>	<b>686</b>
Balance at 1 January 2014	533	9,199	1,210	0	10,942
Depreciation for the year	110	9,201	1,210	0	10,521
Disposals	0	0	0	0	0
<b>Balance at 31 March 2014</b>	<b>643</b>	<b>18,400</b>	<b>2,420</b>	<b>0</b>	<b>21,463</b>
<b>Carrying amounts</b>					
at 1 January 2013	496	3,450	0	37,510	41,456
<b>at 31 March 2013</b>	<b>592</b>	<b>3,265</b>	<b>0</b>	<b>56,292</b>	<b>60,149</b>
at 1 January 2014	697	183,134	23,790	19,561	227,182
<b>at 31 March 2014</b>	<b>805</b>	<b>174,726</b>	<b>22,580</b>	<b>26,646</b>	<b>224,757</b>

#### Useful life of equipment

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

## 5. Intangible assets

*in thousands of NOK*

	2014	2013
<b>Cost</b>		
Balance at 1 January	14,118	12,167
Additions	1,350	908
Disposals	0	0
<b>Balance at 31 March</b>	<b>15,468</b>	<b>13,075</b>
<b>Amortisation and impairment losses</b>		
Balance at 1 January	706	0
Amortisation for the year	706	0
Disposals	0	0
<b>Balance at 31 March</b>	<b>1,412</b>	<b>0</b>
<b>Carrying amounts</b>		
at 1 January	13,412	12,167
<b>at 31 March</b>	<b>14,056</b>	<b>13,075</b>

### Development costs

In January 2014, the Group started the development of its second generation equipment which allows for capitalisation of cost during the first quarter of 2014. In addition, intangibles as at 31 March 2014 comprise of prototypes and MagSeis software for first the generation equipment which are amortised on a straight-line basis over 5.9 and 3 years respectively. The useful life of prototypes is based on the weighted average useful lives of the capsule nodes.

## 6. Share capital and reserves

### Share capital issued

	Number of shares	Shares capital NOK '000	Share premium reserve NOK '000
Ordinary shares - Issued and fully paid			
At 1 January 2013	1,053,299	1,053	338,504
<b>At 31 March 2013</b>	<b>1,053,299</b>	<b>1,053</b>	<b>338,504</b>
Ordinary shares - Issued and fully paid			
At 1 January 2014	1,053,299	1,053	338,504
<b>At 31 March 2014</b>	<b>1,053,299</b>	<b>1,053</b>	<b>338,504</b>

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

## 7. Share-based payments

### Description of the share-based payment arrangements

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

Share based payment plan (equity-settled)

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

### Share option programs

#### 2013

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life of options
As of 1 January 2013	15,046		3.00
Option grant to key management on 13 March 2013	43,780	20% vest on 13 March 2014, 30% vest on 13 March 2015 and 50% vest on 13 March 2016	3.95
<b>As of 31 March 2013</b>	<b>58,826</b>		

#### 2014

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life of options
As of 1 January 2014	74,126		2.85
Option grant to key management on 31 March 2014	3,000	50% vest on 31 March 2016 and 50% vest on 31 March 2017	4.00
<b>As of 31 March 2014</b>	<b>77,126</b>		

### Reconciliation of outstanding share options

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

	2014		2013	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
<i>in thousands of NOK</i>				
Outstanding at 1 January	403.44	74,126	346.27	15,046
Forfeited during the period	0	0	0	0
Exercised during the period	0	0	0	0
Granted during the period	475.00	3,000	418.00	43,780
<b>Outstanding at 31 March</b>		<b>77,126</b>		<b>58,826</b>
Exercisable at 31 March	371.65	13,619	194.00	2,318

The options outstanding at 31 March 2014 have an exercise price in the range of NOK 194 to NOK 475 and a weighted average contractual life of 2.89 years.

The Group recognised a share-based payment expense of NOK 1,720 thousand in the period ended 31 March 2014 (2013: NOK 532 thousands) in relations to share options issued.

### Inputs for measurement of grant date fair values

The grant date fair value of all share-based payment plans was calculated using the Black-Scholes-Merton option pricing model.

Expected volatility is estimated by considering historic average share price volatility of comparable listed entities.

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

<i>Fair value of share options and assumptions</i>	<b>31.03.14</b>	<b>13.03.13</b>
Fair value at grant date (weighted average)	252.06	213.78
Share price at grant date	475.00	418.00
Exercise price	475.00	418.00
Expected volatility	75.00%	75.00%
Option life (years)	4.00	4.00
Expected dividends	0	0
Risk-free interest rate (weighted average)	1.80%	1.49%

## 8. Related parties

### Shares and options held by current members of the Board and management, as at 31 March

	Shares		Share options	
	2014	2013	2014	2013
A Farestveit	157,853	157,853	8,000	8,000
N Matre (Westcon Group)	201,675	201,675	0	0
J B Gateman	174,737	136,295	8,000	8,000
I Gimse	44,793	44,793	11,000	8,000
M Ektvedt	0	0	13,329	10,329
<b>Total</b>	<b>579,058</b>	<b>540,616</b>	<b>40,329</b>	<b>34,329</b>

### 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 NOK*

Name	Transactions	Note	Transaction value		Balance outstanding	
			2014	2013	2014	2013
J B Gateman	Consultant costs	(I)	288	288	360	360
N Matre/Westcon Group	Leases	(II)	27,876	0	9,448	0
N Matre/Westcon Group	Other services	(III)	303	281	51	351
<b>Total</b>			<b>28,467</b>	<b>569</b>	<b>9,859</b>	<b>711</b>

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

- (II) MagSeis and Westcon Group have an ongoing vessel time charter (TC) agreement along with a sale and leaseback arrangement. As part of the TC agreement Westcon Group also delivers Marine Management services. In Q1 2014, this cost amounts to NOK 637. As at 31 March 2014 the remaining lease terms are both 4.75 years.
- (III) In addition to the leases Westcon Group also delivered some minor yard services during Q1 2014. Transaction cost in Q1 2013 relates to vessel selection advises and similar services.

## 9. Leases

### Operating leases

The TC agreement with Westcon Group (related party) is classified as an operating lease. The table below sets out the future minimum lease payments of the arrangement:

*in thousands of NOK*

	2014	2013
Less than one year	102,709	0
Between one and five years	385,791	0
More than five years	0	0
<b>Total</b>	<b>488,500</b>	<b>0</b>

### Finance lease

The sale and leaseback arrangement with Westcon Group (related party) is treated as finance lease.

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

*in thousands of NOK*

	2014		2013	
	Future minimum lease payments	Present value of minimum lease payments	Future minimum lease payments	Present value of minimum lease payments
Less than one year	6,556	6,196	0	0
Between one and five years	24,068	17,899	0	0
More than five years	0	0	0	0
<b>Total minimum lease payments</b>	<b>30,624</b>	<b>24,095</b>	<b>0</b>	<b>0</b>
Less amounts representing finance charges	6,529	0	0	0
<b>Present value of minimum lease payments</b>	<b>24,095</b>	<b>24,095</b>	<b>0</b>	<b>0</b>

Refer to note 8 *Related parties* for further information about leases with related parties.

## 10. Capital commitments

Future minimum payments relating to equipment are as follows:

*in thousands of NOK*

Equipment	2014	2013
<i>Contracted but not yet provided for and payable:</i>		
Within one year	47,823	104,144
One year later and no later than five years	0	0
Later than five years	0	0
<b>Total</b>	<b>47,823</b>	<b>104,144</b>

## 11. Subsequent events

In early April, the Group received work orders from Statoil for surveys on the Gullfaks and Oseberg fields to be commenced in Q2 and Q3 respectively. In late April, MagSeis AS successfully conducted a new equity issue of NOK 120 million to finance an expansion of equipment on Artemis Athene and long lead items for a second vessel. In May 2014, MagSeis AS signed an agreement with Shell Technology Ventures B.V. to invest USD 4 million in MagSeis' OBS technology through the issuance of a convertible loan. The loan has a two year conversion period following drawdown; the loan has not been drawn on at the date of this report.

The Board has recommended that the company to be listed and has called an extraordinary general assembly that will be held 27 May 2014 with planned listing on Oslo Axess in June 2014.