Magseis Fairfield ASA

Q2

2019

magseis fairfield

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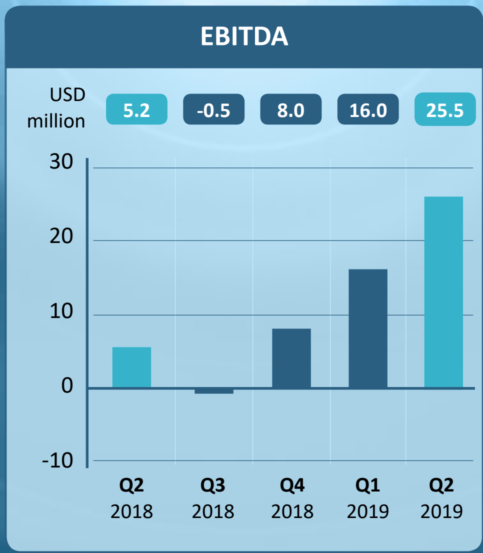
HIGHLIGHTS



HIGHLIGHTS SECOND QUARTER 2019

- **Revenues of USD 131.5 million (USD 19.7 million in second quarter 2018), up from USD 119.5 million in first quarter 2019**
- **System sales of MASS nodes accounted for USD 39.9 million (USD 0 million in second quarter 2018), up from USD 28.1 million in first quarter 2019**
- **EBITDA of USD 25.5 million (USD 5.2 million in second quarter 2018), up from USD 16.0 million in first quarter 2019**
- **Cash flow from operating activities of USD 32.1 million (USD 3.2 million in second quarter 2018)**
- **Net profit after tax of USD 11.9 million (USD 0.5 million net loss in second quarter 2018), compared to a net loss of USD 6.5 million in first quarter 2019**

CEO COMMENT

Magseis Fairfield generated revenues of USD 132 million in the second quarter of 2019 and USD 251 million for the first half of 2019, whereas EBITDA came in at USD 25.5 million for the second quarter of 2019 and USD 41.6 million for the first half of 2019.

The results were achieved through successful deliveries of MASS node systems, ahead of time. We also completed several surveys in the second quarter, amongst them a long-running Red Sea survey with an impressive safety record and technical downtime of less than 1% over the last 18 months. Activity levels in the Gulf of Mexico were high, with the first deepwater operation using MASS technology and a second sparse node acquisition project with ZXPLR nodes, which exceeded expectations with deployment levels over and above any previous operations.

Operations were picking up in the North Sea as well, and the Artemis Athene returned from the Middle East ahead of a survey starting in the third quarter. The node-on-a-rope crew in the Middle East show that it manages challenging environmental conditions and simultaneous operations in the field and will continue working through the third and fourth quarter.

The company has seen significant internal changes and organizational adjustments as part of the ongoing integration into one Magseis Fairfield. The Western and Eastern operation groups were merged under single leadership, leveraging the full spectrum of our global expertise in preparation for a scale up in operational activity. The legal and HR organizations were also integrated and brought under single leadership, while honoring the requirements of the different locations and regulatory environments.

The ongoing alignment and integration of processes and systems is progressing according to plan, allowing more efficient turnaround of bidding and commercial activities.

Looking into the second half of 2019, the order book indicates higher data acquisition volumes, with higher underlying project margins, improved capacity utilization and less one-off costs. At the same time, we see that some projects and tenders scheduled for start-up towards the end of the year might slip into 2020, with uncertain capacity utilization for the fourth quarter increasing the risk for the full-year revenue and EBITDA guidance.

Looking further ahead we remain confident in the future of the Ocean Bottom Seismic industry and our strong position in this market. Despite the current volatility in oil and gas prices, we continue to see a large number of tenders, tender programs, multi-client activity and system sales coming into the market for 2020 and beyond, opening opportunities for profitable growth in the years to come.

Per Christian Grytnes - **CEO Magseis Fairfield**

KEY FINANCIALS

In millions of USD

Profit and loss	Q2 2019	Q2 2018	YTD 2019	YTD 2018	Full Year 2018
Revenues	131.5	19.7	251.0	44.3	136.5
Cost of sales	87.2	10.1	175.5	19.8	86.8
EBITDA	25.5	5.2	41.6	15.6	23.0
EBIT	11.4	1.0	8.6	7.6	3.1
Net Profit (Loss)	11.9	-0.5	5.4	5.1	-2.8
Basic earnings (loss) per weighted Average shares	0.06	-0.01	0.03	0.07	-0.04
Financial Position					
Total assets			584.7	163.2	527.3
Total liabilities			244.3	26.0	193.7
Total equity			340.4	137.2	333.6
Equity ratio			58.2 %	84.1 %	63.3 %
Cash Flows					
Net cash from operating activities	32.1	3.2	30.2	-3.0	13.7

OPERATIONS

Magseis Fairfield worked on seven different seismic acquisition projects in the second quarter 2019, three of which were completed during the quarter and two in July and August. Work commenced on four new projects during the second quarter, and one so far in the third quarter.

In addition, the company delivered ahead of schedule some 3 000 nodes in the third batch to BGP Offshore in the second quarter.

During the second quarter, Magseis Fairfield received new orders and increase of scope with a total value of USD 9 million, which was offset by decrease of scope and some slide to 2020. The total order backlog was USD 263 million by the end of the second quarter. USD 202 million of the backlog is for delivery in 2019.

Mass node surveys

A long-running Red Sea survey program was completed during the quarter, with the crew maintaining strong operational performance till the end. Technical downtime was at or below 1% over the last 18 months. Upon completion the Artemis Athene sailed from the Red Sea to the North Sea. The vessel has now completed a month-long yard-stay in dry dock in Florø, mainly for classing requirements, and is mobilizing for a 70 days survey over a field in the UK sector in the third quarter.

In the Norwegian sector, the company mobilized and has now completed a survey in the North Sea. The node handler and source vessel were already on contract with the client, with Magseis Fairfield supplying the nodes, the handling system, the source system and technical personnel.

In the Gulf of Mexico (GoM), Magseis Fairfield successfully completed its first deepwater operation with MASS technology in the second quarter. This was the client's first OBN seismic survey and Magseis Fairfield has already been awarded a second survey for the same client in the GoM with Z-nodes.

As described in the first quarter report, the operation in Malaysia was finalized in early April. The MASS I nodes used in the operation was thereafter shipped to the Middle East, as part of the third delivery of 3 000 nodes under a large node sale contract signed last year. The main part of the fourth and final delivery to BGP has been shipped in early August with a supplementary shipment in September 2019, after which the client will have received a total 17 000 MASS nodes.

Z-node surveys

Magseis Fairfield completed the industry's first ever sparse deep-water node acquisition project in the GoM in the first quarter, after which the crew transitioned to a new and more efficient vessel and deployment platform. The new setup with ROVs and ZXPLR node handling systems aboard the multi-purpose offshore vessel REM Saltire began work on another GoM sparse node survey in May, and this survey was completed in early August.

The project required the single node handling vessel, a support vessel and three independent source vessels each towing dual sources. This is an innovative configuration utilizing completely new methodology, with a focus on improved data quality and increased productivity. While the source effort was challenging, the daily productivity of the source fleet exceeded expectations despite some equipment issues generating delays. The node production consistently achieved deployment levels over and above any previous operation.

The crew immediately moved on to its next GoM project, where it will test a low-frequency source technology in the production survey. The crew is booked on back-to-back contracts through the second quarter of 2020.

The Z700 node crew in the Middle East commenced operations in the first quarter and continued to operate at or above expected daily averages in challenging conditions through the second quarter. There are many dynamic and simultaneous operations ongoing on the field, as well as environmentally sensitive areas. The sea conditions are calming into the summer months, allowing for further improved and consistent production, although extreme temperatures (+50°C) pose another type of challenge. The crew and equipment are well prepared for these temperatures. The node-on-a-rope crew will continue working in the Middle East through the fourth quarter 2019. Increased tensions in the region are not a direct threat to operations at this time, although the company sees higher insurance premiums and has sharpened the security awareness and planning.

Reservoir monitoring/source

Magseis Fairfield commenced mobilization of two contracted long-term 4D reservoir monitoring surveys in April, with the two projects starting just two days apart.

The Skandi Nova mobilized just after Easter, with source operations commencing as scheduled late April. The survey was completed in good time with excellent performance. The vessel returned to port before heading to the next survey, working with the Magseis Fairfield node team on Skandi Hugen. That survey was completed in early August.

Acquisition on a Permanent Reservoir Monitoring (PRM) survey commenced early May, using the client-provided supply vessel. The survey was completed on mid-May, and the vessel transited north to another field. Favorable weather conditions allowed for survey completion more than a week ahead of schedule, with all equipment demobilized from the vessel before the last week of June. This was the sixth year of PRM operations on these fields.

The first shot was taken on another five-year PRM program on a North Sea field in August. Construction of the PRM system commenced in the first quarter, and all components of the new containerized source system were delivered to the operating base in early May and assembled by Magseis Fairfield's offshore crew and technical team over the following four weeks. Vessel integration work took place over a 10-day period in mid-June and the system was mobilized onto the vessel in late July.

Magseis Fairfield continues to develop new and innovative technologies. In the second quarter the company successfully completed proof of concept trials offshore Denmark for its extra high-resolution 3D seismic (XHR3D) system, formally known as P-Cable.

The Magseis Fairfield organization moved to a new operating base in the Risavika port in Stavanger during the quarter.

Technology

The Technology business unit is responsible for developing and manufacturing of MASS and Z nodes and handling systems in Norway/Sweden and Houston, respectively. The unit had several node building projects going through the second quarter, both for sale and for own inventory and offering. The US technology unit has also been preparing for the move to new facilities in the third quarter.

The most significant delivery in the second quarter was the third batch of MASS nodes and node handling systems to BGP Offshore in June, including hardware as well as installation support, crew training and operational support by technical services and software teams. The main part of the fourth batch was delivered in early August.

The R&D organization worked to complete development of the MASS III node in the second quarter, as well as full back deck systems for MASS III and the second crew of ZXPLR nodes in the GoM.

The Technology business unit is working on several efficiency and cost savings projects to best reap the synergies of the business combination of Magseis, Fairfield and WGP last year. The alignment of the Quality Management System is in good progress and should improve the organization and workflows.

QHSE

Magseis Fairfield registered approximately 1 200 000 exposure hours in the second quarter. This was somewhat lower than in the previous quarter, as several larger projects were coming to an end. No recordable injuries were sustained during the quarter.

Subsequent events

On 26 August 2019, Magseis Fairfield signed a Letter of Intent (LoI) for the lease of a Z700 node crew, which includes nodes, auxiliary equipment and service personnel for a six-month period in the Caspian Sea. The contract will commence in the first quarter 2020 when the nodes have been released from an ongoing survey.

BOARD OF DIRECTORS REPORT - FINANCIAL REVIEW

FINANCIAL REVIEW

The Fairfield and WGP Group was acquired at 18 December 2018, thus references to amounts relating to these units do not have comparable amounts in second quarter 2018.

Revenues

Revenues for the second quarter of 2019 were USD 131.5 million, up from USD 119.5 million in the previous quarter. Magseis legacy revenues amounted to USD 54.6 million including USD 39.9 million from system sales of MASS nodes, which compares to reported Magseis revenues of USD 19.7 million in second quarter 2018. Fairfield and WGP revenues amounted to USD 76.9 million.

For the first half of 2019, consolidated revenues were 251.0 million. Magseis legacy revenues for the first half of 2019 were USD 116.4 million including USD 68.0 million from system sales of MASS nodes, compared to USD 44.3 million in the first half 2018. Fairfield and WGP revenues were USD 134.6 million.

Operational costs

Group cost of sales (COS) amounted to USD 87.2 million in the second quarter of 2019, generating an average gross margin of 34% for the quarter. Magseis legacy accounted for USD 33.0 million in COS including USD 18.7 million related to system sales of the MASS nodes, which compares to COS of USD 10.1 million in the second quarter of 2018. COS for the Fairfield and WGP was USD 54.2 million.

COS for the first half year amounted to USD 175.5 million. Magseis legacy accounted for USD 72.4 million including USD 35.5 million relating to system sales of MASS nodes. This compared to USD 19.8 million in the first half 2018. COS for the Fairfield and WGP was USD 103.1 million.

Selling, general and administration costs (SG&A) and other expenses amounted to USD 18.0 million in the second quarter. Magseis legacy accounted for USD 8.6 million of this, which compares to USD 3.7 million in second quarter 2018, whereas Fairfield and WGP accounted for USD 9.4 million. For the first half year, SG&A and other expenses amounted to USD 32.5 million. Magseis legacy accounted for USD 14.1 million, compared to USD 7.7 million in second quarter 2018, whereas Fairfield and WGP accounted for USD 18.4 million.

Research and development

Research and development (R&D) expenses amounted to USD 0.8 million in the second quarter 2019 and USD 1.5 million for the first half year, which compares with USD 0.7 million and USD 1.2 million, respectively, in the same periods last year. This is primarily R&D in Magseis legacy.

Depreciation, amortization and impairment

Depreciation was USD 13.3 million in the second quarter. Magseis legacy accounted for USD 3.5 million, compared to USD 4.0 million in the second quarter last year. Depreciation for Fairfield and WGP in the quarter was USD 9.8 million.

Depreciation amounted to USD 28.1 million in the first half of 2019. Magseis legacy accounted for USD 7.7 million, compared to 7.6 million in the first half 2018. Depreciation for Fairfield and WGP in the half of 2019 was USD 20.4 million.

Of the depreciation for the first half of 2019, USD 7.9 million relates to right-of-use assets booked in accordance with the adoption of IFRS 16 from 1 January 2019.

Amortization amounted to USD 0.8 million in the second quarter and USD 4.8 million for the first half year, mainly relating to the identified technology and customer assets following the preliminary purchase price allocation of the Fairfield and WGP acquisition. A review of the estimated useful life of technology assets was performed in the second quarter which led to an adjustment of the amortization period from 5 to 10 years and hence the lower amortization charge in the quarter.

Profits

EBITDA was USD 25.5 million in the second quarter including USD 21.1 million from system sales of MASS nodes, generating an EBITDA-margin of 19.4%. Magseis legacy recorded an EBITDA of USD 7.2 million, compared to USD 5.2 million in the second quarter 2018. Fairfield and WGP contributed with EBITDA of USD 18.3 million in the second quarter.

The second quarter EBITDA was positively influenced by the sales to BGP partly offset by the mobilization from the Red Sea to the North Sea and the time in yard stay for Artemis Athene as well as a trade receivables write-off of USD 1.6 million related to settlement with a customer. Fairfield and WGP saw operational activities picking up from first to second quarter in 2019.

For the first half of 2019, the EBITDA was USD 41.6 million. Magseis Legacy accounted for USD 20.3 million including USD 32.1 million from system sales of MASS nodes, compared to USD 15.6 million in the first half of 2018. Fairfield and WGP contributed with EBITDA of USD 21.3 million in the first half 2019.

EBIT was USD 11.4 million for the second quarter and USD 8.6 for the first half of 2019, compared to USD 1.0 million and USD 7.6 million for the corresponding periods in 2018. Net financial items were a positive USD 1.5 million in the second quarter 2019, including a revaluation of warrants which gave a positive effect of USD 4.1 million. In the same period last year Magseis reported a net financial cost of USD 1.3 million. For the first half year the company reports a net financial cost of USD 0.7 million, compared to a net financial cost of USD 1.5 million in the first half 2018.

Net profit for the Group was USD 11.9 million in the second quarter, after deduction of income tax of USD 1.0 million, compared to a net loss of 0.5 million in the second quarter last year. In the first half of 2019 the net profit for the Group was USD 5.4 million after a tax expense of USD 2.6 million, which compares with a net profit of USD 5.1 million in the first half year 2018.

Balance Sheet

Total assets were USD 584.7 million at 30 June 2019, up from USD 163.2 million at the end of the second quarter 2018. USD 345.5 million of the change is related to the acquisition of Fairfield and WGP, including working capital. A preliminary purchase price allocation (PPA) has been performed and presented in the annual report of 2018. Excess purchase value has been allocated to technology and customer related assets while remaining value has been recorded as goodwill. The PPA will be reviewed and could be adjusted further in 2019 with potential impact on depreciation and other items. Reference is made to note 12 Business combinations.

As per 30 June 2019, current assets amounted to USD 266.1 million, compared to USD 68.8 million as per 30 June 2018. USD 68.9 million related to inventories. Trade receivables stood at USD 121.4 million, of which Magseis legacy accounted for USD 65.5 million, and Fairfield and WGP for USD 55.9 million. Trade receivables amounted to USD 24.9 million at the end of the second quarter last year. Cash and cash equivalents were USD 54.2 million (USD 0.5 million restricted) per 30 June 2019, compared to USD 36.2 million (USD 1.0 million restricted) per 30 June 2018.

The Group's equity amounted to USD 340.4 million per 30 June 2019, compared to USD 137.2 million per 30 June 2018. The equity ratio was thus 58.2%, compared to 84.1% at the end of June 2018.

The adoption of IFRS 16 has had the following effect on the balance sheet: A total right-of-use asset of USD 19.9 million and a corresponding lease liability of USD 19.9 was established in January 2019. At 30 June 2019 the lease liability was USD 36.3 million where of USD 18.5 million was non-current and USD 17.8 million was a current liability. Adjusting for the total lease liability, the equity ratio would have been 62.1%.

Non-current liabilities were USD 57.8 million per 30 June 2019, compared to USD 12.4 million per 30 June 2018. These liabilities are mainly related to the non-current portion of USD 23.9 million of a total USD 50 million loan facility from DNB, as well as warrants valued at USD 3.2 million. Funding of an accumulated USD 8.1 million has been received from Shell Global Solutions for a cooperation agreement for development of a deepwater solution for seismic operations. This funding is recognized as a finance arrangement in the financial statements and considered a contingent liability.

Current liabilities amounted to USD 186.5 million per 30 June 2019, compared to USD 13.6 million per 30 June 2018. Trade payables were USD 54.8 million compared to trade payables of USD 5.9 million at the end of the second quarter last year. Other current liabilities include project related accruals of USD 24.1 million and provision of USD 6.0 million. The current portion of long-term loans amounted to USD 21.5 million as of 30 June 2019, compared to USD 2.5 million as of 30 June 2018.

Bank covenants

For the DNB USD 50 million loan facility, the required equity ratio was reduced to 50% for all quarters in 2019 from the original covenant requirement of 60%.

The Leverage definition was amended as follows: Leverage shall be defined as "means, in respect of any Relevant Period, the ratio of Total Debt less Cash on the last day of the Relevant Period to EBITDA in respect of that Relevant Period."

Further to the DNB USD 50 million loan facility, the bank guarantee towards a customer was previously secured by cash collateral of USD 15 million. The cash collateral has been released. The guarantee commission thereby increased from 1.00% to 3.00%.

Magseis Fairfield Group is not in breach of the DNB loan covenants as per 30 June 2019. Based on the Group's financial forecast, there are no indications that there will be any breach of the covenants in 2019.

Cash Flow

Cash flows from operating activities was USD 32.1 million in the second quarter 2019, compared to USD 3.2 million in the second quarter 2018.

Net cash flows used for investing activities amounted to USD 14.1 million in the second quarter, up from USD 11.0 million in the second quarter 2018 due to increased investments in seismic equipment.

Cash outflow from financing activities was USD 13.7 million in the second quarter of 2019 related to repayment of loans, compared to USD 0.7 million in the same period of 2018.

For the first half of 2019 cash flows from operating activities was USD 30.2 million, compared to an outflow of USD 3.0 million in the first half of 2018.

Net cash flows used for investing activities amounted to USD 19.0 million in the first half of the year, down from USD 25.8 million in the first half of 2018 due to decreased investments in seismic equipment.

Cash outflow from financing activities was USD 25.1 million in the first half of 2019 related to repayment of loans, lease payment and paid interests. In the same period of 2018, the cash in-flow from financing activities was USD 35.2 million, mostly due to proceeds from a share capital issue.

Employees

As per 30 June 2019, the Group had a total of 650 employees including contractors, up from 614 at the end of 2018. Offshore seismic employees and contractors was 342 as per 30 June 2019, compared to 325 at the end of 2018.

Outlook

Magseis Fairfield expects higher data acquisition volumes in the second half of the year, with higher underlying project margins, improved capacity utilization and less one-off costs. The current crews are fully booked in the third quarter. However, the company sees that some projects and tenders scheduled for start-up towards the end of the year might slip into 2020, with uncertain capacity utilization for the fourth quarter increasing the risk for the full-year revenue and EBITDA guidance.

Looking further ahead Magseis Fairfield remains confident in the future of the Ocean Bottom Seismic industry and its strong position in this market. A large number of tenders, tender programs, multi-client activity and system sales are expected to come to the market for 2020 and beyond, opening opportunities for profitable growth in the years to come.

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the condensed consolidated interim financial statements for the period 1 January to 30 June 2019 have been prepared in accordance with current applicable accounting standards and IAS 34 Interim Financial Reporting and gives a true and fair view of the assets, liabilities, financial position and results of the Group. We also confirm, to the best of our knowledge that the condensed consolidated interim financial statements present a fair view of the development and performance of the business during the period, and together with the 2018 Annual Report a description of the principal risks and uncertainties facing the Group.

Board of Directors and CEO of Magseis Fairfield ASA,
Lysaker, 26 August 2019

Charles W. Davidson Jr
Chairman

Jan Gateman,
Director and Executive Vice President

Bettina R. Bachmann,
Non-executive Director

Edvin Endresen
Non-executive Director

Wenche Kjølås
Non-executive Director

Luis Araujo
Non-executive Director

Angela Durkin
Non-executive Director

Per Christian Grytnes
CEO

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
In thousands of USD	*Note*	Q2 2019 *(unaudited)*	Q2 2018 *(unaudited)*	YTD 2019 *(audited)*	YTD 2018 *(unaudited)*	Full Year 2018 *(audited)*
REVENUE AND OTHER INCOME						
Revenue	*4*	131 539	19 718	251 041	44 283	136 477
Total revenue and other income		**131 539**	**19 718**	**251 041**	**44 283**	**136 477**
OPERATING EXPENSES						
Cost of sales		87 191	10 114	175 484	19 805	86 764
Research and Development costs		833	670	1 473	1 231	3 995
General and administrative costs		17 997	3 741	32 529	7 683	22 705
Depreciation	*5*	13 327	4 005	28 125	7 566	19 097
Amortization	*6, 7*	825	191	4 783	382	839
Total operating expenses		**120 174**	**18 721**	**242 394**	**36 667**	**133 400**
OPERATING PROFIT (LOSS)		**11 365**	**997**	**8 647**	**7 615**	**3 077**
FINANCIAL INCOME AND EXPENSES						
Financial income		3 295	3	4 354	5	2 628
Financial expenses		-1 830	-1 314	-5 007	-1 507	-5 058
Net financial items		**1 466**	**-1 311**	**-653**	**-1 502**	**-2 430**
NET PROFIT (LOSS) BEFORE TAX		**12 831**	**-314**	**7 994**	**6 114**	**647**
Income tax expense		963	227	2 605	987	3 468
NET PROFIT (LOSS)		**11 868**	**-540**	**5 389**	**5 127**	**-2 821**
Basic earnings (loss) per weighted average shares (in USD)		0.06	-0.01	0.03	0.07	-0.04
Diluted earnings (loss) per weighted average shares (in USD)		0.06	-0.01	0.03	0.07	-0.04
OTHER COMPREHENSIVE INCOME						
Other comprehensive income		-	-	-	-	-
Total comprehensive income (loss) for the period		**11 868**	**-540**	**5 389**	**5 127**	**-2 821**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of USD	*Note*	**YTD 2019** *(unaudited)*	**YTD 2018** *(unaudited)*	**YE 2018** *(audited)*
ASSETS				
Non-current assets				
Goodwill	*12*	93 731	-	93 731
Property, plant and equipment	*5*	149 406	89 498	148 598
Multi-client library	*6*	-	-	-
Other intangible assets	*7*	75 507	4 951	80 280
Total non-current assets		**318 643**	**94 450**	**322 609**
Current assets				
Cash and cash equivalents		54 230	36 168	68 110
Trade receivables		121 440	24 890	75 335
Inventories		68 929	2 616	32 538
Other current assets		21 492	5 105	28 718
Total current assets		**266 090**	**68 779**	**204 701**
TOTAL ASSETS		**584 733**	**163 229**	**527 310**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	*8*	1 167	545	1 166
Share premium	*8*	382 148	178 508	382 152
Other equity		4 722	3 213	3 244
Retained earnings		-42 479	-39 917	-47 864
Currency translation reserve		-5 124	-5 124	-5 124
TOTAL EQUITY		**340 434**	**137 225**	**333 573**
LIABILITIES				
Non-current liabilities				
Obligation under finance lease	*10*	18 494	-	-
Other non-current financial liabilities		39 310	12 447	50 846
Total non-current liabilities		**57 804**	**12 447**	**50 846**
Current liabilities				
Trade payables		54 838	5 900	48 037
Current tax payable		3 540	765	1 855
Current portion of long term loans		21 467	2 334	27 301
Current portion of obligations under finance lease	*10*	17 796	205	-
Other current liabilities		88 855	4 353	65 698
Total current liabilities		**186 495**	**13 557**	**142 891**
TOTAL LIABILITIES		**244 300**	**26 003**	**193 737**
TOTAL EQUITY AND LIABILITIES		**584 733**	**163 229**	**527 310**

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 2018	**438**	**141 486**	**3 284**	**-45 044**	**-5 124**	**95 040**
Profit / (loss)	-	-	-	-2 821	-	-2 821
Other comprehensive income	-	-	-	-	-	-
Share issuance 1 February	40	14 229	-	-	-	14 269
Transaction costs	-	-1 351	-	-	-	-1 351
Share issuance 21 February	68	24 244	-	-	-	24 312
Transaction costs	-	-101	-	-	-	-101
Share issuance 17 December	428	144 814	-	-	-	145 243
Transaction costs	-	-6 146	-	-	-	-6 146
Share issuance 19 December	192	64 975	-	-	-	65 168
Share-based payments (options)	-	-	-40	-	-	-40
Balance at 31 December 2018	**1 166**	**382 152**	**3 244**	**-47 864**	**-5 124**	**333 573**
Balance at 1 January 2019	**1 166**	**382 152**	**3 244**	**-47 864**	**-5 124**	**333 573**
Profit / (loss)	-	-	-	5 389	-	5 389
Other comprehensive income	-	-	-	-	-	-
Share issuance 14 January	-	4	-	-	-	4
Transaction costs	-	-1	-	-	-	-1
Share issuance 24 April	1	-	-	-	-	1
Transaction costs	-	-6	-	-	-	-6
Share-based payment (options)	-	-	1 478	-	-	1 478
Other adjustments	-	-	-	-3	-	-3
Balance at 30 June 2019	**1 167**	**382 148**	**4 722**	**-42 479**	**-5 124**	**340 434**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of USD Year	*Note*	Q2 2019 *(unaudited)*	Q2 2018 *(unaudited)*	YTD 2019 *(audited)*	YTD 2018 *(unaudited)*	Full Year 2018 *(audited)*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit / (Loss) before tax		12 831	-314	7 994	6 114	647
Adjustment for:						
Income tax and withholding tax paid		-1 848	-755	-2 304	-1 090	-2 904
Depreciation and amortization	*5*	14 153	4 079	32 908	7 715	19 498
Share based payments expense		-1 490	12	-1 478	-70	-40
Interest expense and other financial items		2 433	161	5 007	463	1 523
Interest income		-4 068	-3	-4 354	-5	-492
Cost of sales of nodes, non cash effect		9 311	-	15 910	-	9 221
Working capital adjustments:						
(Increase) / decrease in current assets		865	-200	-58 603	-15 278	-43 033
Increase / (decrease) in current liabilities		-89	264	35 119	-847	29 313
Net cash flows from operating activities		**32 098**	**3 244**	**30 199**	**-2 999**	**13 732**
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		108	3	394	5	182
Acquisition of equipment	*5*	-12 638	-11 000	-17 608	-25 853	-34 402
Prepaid seismic equipment		-1 618	-	-1 753	-	637
Investment in subsidiaries		-	-	-	-	-163 263
Net cash flows used in investing activities		**-14 148**	**-10 997**	**-18 967**	**-25 848**	**-196 845**
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from loan		-	-	-	27	50 027
Payment of finance lease obligation and loan	*10*	-12 387	-516	-21 987	-1 453	-4 033
Proceeds from issue of share capital		1	-	5	38 580	183 823
Expenses related to issue of share capital		-6	-	-7	-1 451	-7 597
Interest paid		-1 333	-161	-3 123	-463	-772
Net cash flows from financing activities		**-13 726**	**-677**	**-25 113**	**35 240**	**221 447**
Net change in cash and cash equivalents		**4 224**	-8 429	-13 881	6 392	38 335
Cash and cash equivalents at period start		50 006	44 597	68 110	29 776	29 776
Cash and cash equivalents at period end		**54 230**	**36 168**	**54 230**	**36 168**	**68 110**

Restricted cash

USD 0.5 million as of 30 June 2019. The cash collateral for a guarantee of USD 15 million as of 31 March 2019 was released by DNB on 16 May 2019 and replaced by a guarantee commission increase from 1.00% to 3.00%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Reporting entity

Magseis Fairfield ASA is a public limited liability company listed on Oslo Stock Exchange main list and incorporated in Bærum, Norway. The address of the Company's registered office is Strandveien 50, 1366 Lysaker. These condensed consolidated interim financial statements comprise Magseis Fairfield ASA (referred to as the "Company") and its subsidiaries (together referred to as "Magseis Fairfield" or the "Group"). Magseis Fairfield is the industry leader in ocean bottom seismic technology. The company's Marine Autonomous Seismic system "MASS" node and Z Node ranges and automated handling system enable highly cost-efficient acquisition of data with exceptional quality. Magseis Fairfield is headquarted in Oslo, Norway and has offices in Norway, Sweden, UK, USA, Brazil and Singapore.

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 do 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 2018, published and available at the Company's website www.magseisfairfield.com

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 26 August 2019.

(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 Company and its subsidiaries have functional and presentation currency in United States Dollar (USD).

The consolidated financial statements for the Group are presented in United States Dollars (USD). All financial information presented in USD 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, amortization, 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.

Working Capital

Working capital is defined as Trade receivables less Trade payables.

2.2 Basis for consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries as of 30 June 2019. 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 unrealized income and expense arising from intra-group transactions, are eliminated.

2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, 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 judgments, estimates and assumptions used to prepare the condensed consolidated interim financial statements are the same as those used to prepare the 2018 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 2018 annual financial statements with except for the changes described below.

IFRS 16 Leases

The Group has adopted IFRS 16, using the modified retrospective method with the date of initial application 1 January 2019. This method requires the cumulative effect of initially applying IFRS 16 to be recognized in the opening balance with no restating of comparative periods. In addition, it was decided to measure right-of-use assets by reference to the measurement of the lease liability on transition date. This will ensure there is no immediate impact to the equity on that date. Further information in note 2 in the Annual Report 2018. The new standard is replacing IAS 17 leases. Instead of recognizing an operating expense for its operating lease payments, the Group will recognize interest on its lease liabilities and amortization of its right-of-use assets. Reference to note 10 Leases.

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. Magseis are in process of evaluating the future segment reporting based on the acquisition of Fairfield and WGP 18 December 2018 and new sale of nodes for the first time in December 2018 for Magseis Fairfield.

4. Revenues

In thousands of USD *Year*	Q2 2019	Q2 2018	YTD 2019	YTD 2018	Full Year 2018
Contract revenue	85 787	19 698	151 432	44 239	94 535
Equipment sale revenue	44 773	-	94 653	-	40 849
Multi- client revenue	-	-	2 175	-	-
Lease revenue	-55	-	1 073	-	6
Other revenues	1 035	21	1 708	43	1 087
Total revenue and other income	**131 539**	**19 718**	**251 041**	**44 283**	**136 477**

5. Property, plant and equipment

In thousands of USD	Seismic equipment	Asset under construction	Office machines	Right-of-use assets IFRS 16	Total
COST					
Balance at 1 January 2018	71 984	24 882	680	4 063	101 609
Acquisition of new business 2018	49 306	13 683	734	28	63 751
Asset completed and ready for intended use	48 364	-48 573	209	-	-
Additions	1 728	51 219	233	-	53 180
Disposals	-22 714	-	-	-	-22 714
Impairment	-	-	-	-	-
Balance at 31 December 2018	**148 668**	**41 211**	**1 856**	**4 091**	**195 826**
Balance at 1 January 2019	148 668	41 211	1 856	4 091	195 826
IFRS 16 Implementation 1. January 2019	-	-	-	19 943	19 937
Additions	8 312	11 964	64	21 872	42 212
Disposals	-22 750	-	-	-	-22 750
Impairment	-	-	-	-	-
Reclass- asset under construction	19 319	-36 522	-	-1 493	-17 340
Balance at 30 June 2019	**153 549**	**16 653**	**1 920**	**45 796**	**217 918**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
Balance at 1 January 2018	28 754	-	430	3 342	32 527
Depreciation for the year	16 392	-	205	721	17 318
Disposals	-2 617	-	-	-	-2 617
Impairment	-	-	-	-	-
Balance at 31 December 2018	**42 530**	**-**	**635**	**4 063**	**47 228**
Balance at 1 January 2019	42 530	-	635	4 063	47 228
Depreciation for the year	19 977	-	295	7 853	28 092
Disposals	-6 840	-	-	-	-6 840
Impairment	-	-	-	-	-
Balance at 30 June 2019	**55 667**	**-**	**929**	**11 916**	**68 512**
NET CARRYING AMOUNTS					
at 1 January 2018	43 230	24 882	250	721	69 083
at 31 December 2018	**106 139**	**41 211**	**1 221**	**28**	**148 598**
at 1 January 2019	106 139	41 211	1 221	19 965	168 536
at 30 June 2019	**97 882**	**16 653**	**990**	**33 880**	**149 406**
Depreciation of the year	**19 977**	**-**	**295**	**7 853**	**28 125**

6. Multi-client library

In thousands of USD	2019	2018
COST		
Balance at 1 January	4 383	4 383
Additions	-	-
Disposals	-	-
Balance at 30 June	**4 383**	**4 383**
AMORTIZATION		
Balance at 1 January	4 383	4 383
Amortization for the year	-	-
Disposals	-	-
Impairment	-	-
Balance at 30 June	**4 383**	**4 383**
CARRYING AMOUNTS		
1 January	-	-
Balance at 30 June	**-**	**-**

7. Other intangible assets

In thousands of USD	2019	2018
COST		
Balance at 1 January	83 169	7 373
Additions	-	-
Disposals	-	-
Balance at 30 June	**83 169**	**7 373**
AMORTIZATION		
Balance at 1 January	2 889	2 040
Amortization for the period	4 773	382
Disposals	-	-
Balance at 30 June	**7 662**	**2 422**
CARRYING AMOUNTS		
Balance at 1 January	80 280	5 333
Balance at 30 June	**75 507**	**4 951**

Development costs

In 2019 and 2018 there was no capitalized development costs.

8. Share Capital and Reserves

The shares of Magseis Fairfield ASA are listed on the main list at Oslo Stock Exchange.

SHARE CAPITAL ISSUED

Ordinary shares - Issued and fully paid	Number of shares	Share price at	Share capital USD '000	Share premium reserve USD '000
Balance as at 1 January 2018	60 892 391		438	141 486
Private placement 1 February 2018	6 089 239	18.00	40	14 229
Transaction costs				-1 351
Private placement 21 February 2018	10 577 428	18.00	68	24 244
Transaction costs				-101
Private placement 17 and 19 December 2018	107 423 304	16.95	621	209 790
Transaction costs				-6 146
Balance as at 31 December 2018	**184 982 362**		**1 166**	**382 152**
Private placement 14 January 2019	2 019	16.95	0	4
Transaction costs				-1
Private placement 24 April 2019	186 211	0.05	1	-
Transaction costs				-6
Balance as at 30 June 2019	**184 984 381**		**1 167**	**382 148**

No dividends were paid during YTD 2019 or in 2018.

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 favorable 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**	**30 June 2019**	**30 June 2018**	**30 June 2019**	**30 June 2018**
J B Gateman	Consultancy	(I)	171	88	-	-
Westcon Group	Leases	(II)	6 572	10 212	-	1 643
Fairfield Geotechnologies	Admin services	(III)	5 308	-	115	-
Total			**12 051**	**10 300**	**115**	**1 643**

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

(II) Relates to time charter (TC) for one vessels and a sale and leaseback agreement. As a part of the TC agreement for Artemis Athene, Westcon Group also delivers marine management services. As at 31 December 2018 the time charter lease was completed. An addendum for extension was signed and Athene is currently on lease until 30 September 2019. Given the short duration of the lease extension, it is not treated as a financial lease according to IFRS 16.

(III) Relates to reimbursable administration cost for Management and other costs of the subsidiary Magseis FF LLC.

10. Leases

Magseis Group adopted IFRS 16 Leases for reporting periods beginning on and after 1 January 2019 using the modified retrospective method. As a result prior years comparatives for 2018 are not disclosed. See note 2 accounting policies for further information.

Right-of-use assets				
In thousands of USD	Vessels	Offices	Other	Total
Carrying value				
Balance 1 January 2019	-	-	28	28
Leases capitalized due to implementation of IFRS 16	11 280	7 591	1 072	19 943
Balance right-of-use assets at 1 January 2019	**11 280**	**7 591**	**1 100**	**19 971**
Additions	18 636	3 532	1 191	23 359
Depreciation	-7 329	-473	-51	-7 853
Other adjustments	-699	-898	-	-1 597
Balance at 30 June 2019	**21 888**	**9 752**	**2 240**	**33 880**

Lease Liabilities			
In thousands of USD	Non-current	Current	Total
Carrying value			
Leases capitalized due to implementation of IFRS 16	10 731	9 212	19 943
Balance Lease Liabilities at 1 January 2019	**10 731**	**9 212**	**19 943**
Additions	15 931	9 748	25 679
Reclassification to current	528	-528	-
Lease payments	-7 074	-873	-7 947
Other adjustments	-1 622	237	-1 385
Balance at 30 June 2019	**18 494**	**17 796**	**36 290**

The Magseis Group leases under IFRS 16 consist of two vessels, office and warehouse leases in Norway, US and UK. The weighted average incremental borrowing rate at initially application of IFRS 16 to lease liabilities was 4.71%. In Q2, this as been revised and adjusted to 6.7 %.

Leases expensed in the period

Leases expensed in the period refers to leases with variable payments, leases with immaterial value or leases of short term including leases that expire in 2019 and which are covered by the short term exemption available on transition to IFRS 16 at 1 January 2019. These leases consist of vessels, warehouses, equipment and vehicles.

Operating Leases		
Future minimum lease payments		
In thousands of USD	30 June 2019	30 June 2018
Less than one year	17 174	17 815
Between one and five years	58	-
More than five years	-	-
Total	**17 232**	**17 815**

IAS 17 operating lease commitments 31 December 2018 compared to IFRS 16 lease liability 1 January 2019

Operating non-cancellable, nominal lease commitments disclosed according to IAS 17 as of 31 December 2018 amounted to USD 16.3 million while the recognized lease commitments under IFRS 16 at 1 January 2019 was USD 19.9 million. The difference is explained by additional leases being recognized which is partly offset by minor/short term leases not being recognized under IFRS 16.

11. Capital commitments

Future minimum commitments relating to equipment are as follows:

In thousands of USD	30 June 2019	30 June 2018
Contracted but not yet provided for and payable:		
Within one year	54 059	28 688
One year later and no later than five years	-	-
Later than five years	-	-
Total	**54 059**	**28 688**

12. Business Combinations

Magseis ASA acquired Fairfields' seismic technologies businesses on 18 December 2018, comprising all of the shares of the newly established Magseis FF LLC in the USA (carve out entity) and all of the shares of Fairfield International Limited, being the parent company for the WGP Group in the UK.

The rationale for the acquisition of these two entities from Fairfield is to create the technology leader in the new generation of marine seismic and establish a global scale and reach for the integrated business.

The transactions were determined to constitute business combinations and have been accounted for using the acquisition method of accounting in accordance with IFRS 3. The acquisition date of accounting was determined to be 18 December 2018. See note 26 in the 2018 annual report for further information about the acquisitions.

A provisional purchase price allocation (PPA) was performed as at 18 December 2018. The accounting is still provisional due to the complexity and timing of the transaction and the fact that management is in the process of performing a detailed review in particular of the property, plant and equipment acquired in the transaction. As a result, the final PPA and the impact on the financial statements from the transaction may differ. Any changes will be adjusted for retrospectively. The final PPA will be completed within 12 months from the acquisition date at the latest in accordance with IFRS 3.

The fair values of the identifiable assets and liabilities in the transaction as at the date of the transaction was estimated as follows based on the preliminary PPA:

In millions USD	Fairfield	WGP group
Property, plant and equipment	55	13
Technology based intangible assets	60	2
Customer relationship	11	3
Cash and cash equivalents	-	3
Inventory	27	1
Trade receivable	24	4
Other current assets	24	1
Other non-current financial liabilities	-	4
Trade payables	27	3
Other current liabilities	23	7
Total identifiable net assets at fair value	151	13
Total consideration	236	22
Goodwill	85	9

13. Onerous contract

The provision for onerous contract in south-east Asia as of 31 December 2018 was reversed in Q1 2019 against the loss for the contract, and no new provision was necessary.

In thousands of USD	30 June 2019	31 December 2018
Provision for onerous contract	-	7 343

14. Shareholders

20 LARGEST SHAREHOLDERS 28 June 2019			
Shareholder	**Nominee**	**Number of shares**	**%**
Fairfield MS LLC	Ordinary	33 500 000	18.1 %
Morgan Stanley & Co. LLC	Nominee	10 220 615	5.5 %
UBS AG	Nominee	6 855 402	3.7 %
ANFAR INVEST AS	Ordinary	6 196 856	3.3 %
SEI INSTITUTIONAL INTERNATIONAL	Ordinary	6 095 950	3.3 %
AS CLIPPER	Ordinary	5 696 521	3.1 %
WESTCON GROUP AS	Ordinary	5 661 436	3.1 %
KAS Bank N.V.	Nominee	5 000 000	2.7 %
KLP AKSJENORGE	Ordinary	4 857 948	2.6 %
U.S. Bank National Association	Nominee	4 649 555	2.5 %
GEO INNOVA AS	Ordinary	4 638 382	2.5 %
Merrill Lynch Prof. Clearing Corp.	Nominee	3 900 000	2.1 %
STRAWBERRY CAPITAL AS	Ordinary	3 724 926	2.0 %
REDBACK AS	Ordinary	3 578 289	1.9 %
KOMMUNAL LANDSPENSJONSKASSE	Ordinary	3 411 771	1.8 %
VERDIPAPIRFONDET NORDEA NORGE VERD	Ordinary	3 197 733	1.7 %
JPMorgan Chase Bank, N.A., London	Nominee	3 058 363	1.7 %
VERDIPAPIRFONDET NORDEA KAPITAL	Ordinary	2 472 872	1.3 %
VERDIPAPIRFONDET PARETO INVESTMENT	Ordinary	2 340 000	1.3 %
BARRUS CAPITAL AS	Ordinary	2 292 351	1.2 %
Total 20 largest shareholders		**121 348 970**	**66%**
Other shareholders		63 635 411	34%
Total outstanding shareholders		**184 984 381**	**100%**

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