Second Quarter and Preliminary Half Year Report

2020

Polarcus Limited

SECOND QUARTER AND PRELIMINARY HALF YEAR RESULTS 2020

Effective cost management in a challenging market

Note: All references in this report to "segment" and "segment reporting" are adjusted for IFRS 15 effects and non-recurring items. Non-recurring items adjusted in 2020 include organization reshape costs. See Note 3 in the accompanying interim financial statements.

Q2 2020 HEADLINES

- Segment revenues of USD 22.8 million, compared to USD 64.8 million in Q2 2019
- Segment EBITDA of negative USD 2.5 million, compared to positive USD 16.0 million in Q2 2019
- Cash from operations of USD 12.7 million, compared to USD 4.9 million in Q2 2019
- Total cash balance of USD 44.8 million
- Vessel utilization of 50%, compared to 72% in Q2 2019
- Backlog of approximately USD 141 million, compared to USD 200 million at the same time last year

Second quarter Segment revenues of USD 22.8 million decreased 65% compared to the same period last year as marine seismic acquisition activity was negatively impacted by the unprecedented global economic crisis triggered by the combined impacts of the COVID-19 pandemic and oil price volatility. The revenue decline was driven largely by reduced utilization as a result of the cancelled and terminated contracts announced in Q1 2020 and lower effective day rates on contract. Reduced revenue from V.Tikhonov further contributed to the revenue decline from the same quarter last year.

In response to the COVID-19 pandemic and the associated contraction in marine seismic acquisition activity, the Company implemented enhanced business continuity measures and a cost reduction plan in March 2020. These initiatives have enabled cost to better align with reduced activity levels. As a result, gross cost of sales in the quarter dropped 60% to USD 23.5 million compared to USD 59.5 million in Q2 2019 and Segment general and administrative costs dropped 29% to USD 2.7 million compared to USD 3.8 million in Q2 2019. The effective cost management measures partly mitigated the significant revenue reduction in Q2 2020 and resulted in a Segment EBITDA of negative USD 2.5 million.

Cash flow from operating activities in the quarter improved to USD 12.7 million compared to USD 4.9 million in Q2 2019 impacted by positive working capital movements. Total cash at quarter-end was USD 44.8 million compared to USD 46.7 million at the end of Q1 2020.

In addition to the cost reduction plan implemented towards the end of the first quarter, the Company announced an organisational reshape in June 2020, decreasing the size of the onshore and offshore organisations while embedding more flexibility to manage anticipated fluctuation in activity levels in the near-term. This is estimated to realize an additional annualised reduction in the Company's operating costs of more than USD 7 million to further improve the financial resilience of the Company. A non-recurring cost of USD 2 million associated with the organization reshape has been adjusted in the Segment numbers.

Backlog at 30 June 2020 together with the value of awards announced after the quarter end is estimated at USD 141 million compared to USD 200 million at the same time last year. The Company's fleet is 40% booked for the remainder of 2020.

H1 2020 HEADLINES

- Segment revenues of USD 89.1 million, compared to USD 131.9 million in H1 2019
- Segment EBITDA of USD 19.7 million, compared to USD 26.2 million in H1 2019
- Cash from operations of USD 17.2 million, compared to USD 10.7 million in H1 2019
- Vessel utilization of 70%, compared to 82% in H1 2019

Segment revenues of USD 89.1 million in the first half of 2020 decreased 32% compared to the same period last year. Adjusted for the revenue generated from the hybrid streamer-node project using third party vessels in H1 2019, segment revenues in H1 2020 decreased 20% compared to the same period last year. This reduction was mainly driven by the lower utilization encountered during Q2 2020.

Gross cost of sales decreased 40% to USD 68.7 million in H1 2020, compared to USD 114.5 million in same period last year, mainly due to the cost reduction plan implemented in Q1 2020 and the lower vessel activity in Q2 2020. Segment general and administrative costs of USD 5.5 million in H1 2020 decreased 18% compared to the same period last year, driven by the cost control measures implemented.

Year-on-year Segment EBITDA decreased 25% to USD 19.7 million in the first half of 2020 compared to USD 26.2 million in the same period last year. Cash generated from operations during first half of 2020 improved to USD 17.2 million, compared to USD 10.7 million in the same period last year.

OUTLOOK

Tender activity significantly reduced during Q2 2020 due to the combined effects of a sharp decline in oil price and the global slow-down related to the COVID-19 pandemic. Discussions with many E&P companies confirm that exploration and production investment portfolios are currently being reviewed and revised. As a result, many tender processes and decisions have been deferred. This indicates a challenging market in the second half of 2020.

However, clients also indicate that 2021 activity is expected to rebuild with a number of projects and tenders rescheduled to next year. E&P companies will finalize their budgets for 2021 exploration and production investments during the second half of 2020. Sentiment during this period, related to oil price and COVID-19 restrictions, will be an important factor determining 2021 demand levels.

The Company continues to focus on managing its cost base appropriately with cash preservation being a key priority. Implementation of business continuity initiatives and substantial cost reduction measures is helping the Company navigate the current market uncertainty.

The reshaping of the seismic industry that has occurred, resulting in an increased number of multi-client companies without vessels, has led to an improved industry structure. However, continued supply-side discipline observed during Q2 2020 with three vessels removed from the global vessel count of 22 vessels is critical for the future market balance. Further reductions in active vessels are expected during H2 2020.

Industry-wide focus on the environment continues to sharpen and Polarcus is receiving growing recognition for its Explore Green™ capabilities, a cornerstone of the Company since inception. Following a successful launch in 2019, Polarcus Cirrus™ is expected to gain further momentum as more E&P clients realize the opportunity of accelerated decision-making to compress the timeline for hydrocarbon production. With a young, highly efficient and uniform fleet, combined with demonstrated operational excellence, Polarcus is well-positioned to continue securing and delivering premium projects around the globe, despite the near-term uncertainty in marine seismic acquisition demand.

KEY FINANCIALS

	Quarter ended		Six months ended		Year ended
(In millions of USD)	**30-Jun-20**	30-Jun-19	**30-Jun-20**	30-Jun-19	**31-Dec-19**
Segment reporting					
Revenues	22.8	64.8	89.1	131.9	290.6
EBITDA	(2.5)	16.0	19.7	26.2	63.4
EBIT	(9.7)	8.7	(1.2)	11.5	28.0
Cash from operations before changes in working capital	(4.2)	16.0	18.4	25.3	61.5
Net working capital movement	16.9	(11.1)	(1.2)	(14.5)	(0.6)
Net cash flows from operating activities	12.7	4.9	17.2	10.7	60.9
As per IFRS					
Revenues	22.1	64.8	77.4	140.1	288.6
EBITDA	(5.1)	16.0	6.1	34.3	61.4
EBITDA (before non-recurring items)	(3.1)	16.0	8.1	34.3	61.4
EBIT	(11.9)	8.7	(7.0)	11.5	24.3
EBIT (before non-recurring items)	(9.9)	8.7	(5.0)	11.5	24.3
Net profit/(loss) for the period	(20.7)	0.6	(25.0)	(4.7)	(10.0)
Basic earnings/(loss) per share (USD)	(0.040)	0.001	(0.049)	(0.009)	(0.020)
Total assets (period end)	456.0	470.4	456.0	470.4	458.7
Total liabilities (period end)	412.2	396.8	412.2	396.8	390.1
Total Equity (period end)	43.8	73.6	43.8	73.6	68.6
Equity Ratio	10%	16%	10%	16%	15%
PP&E cash investment	4.0	1.8	7.3	2.2	16.7
Multi-client projects cash investment	0.4	-	7.9	-	6.1
Total cash (period end)	44.8	23.8	44.8	23.8	36.5
Net interest bearing debt (period end)	317.9	314.6	317.9	314.6	301.5

Financial Results (in accordance with IFRS)

Revenues

(In millions of USD)	Quarter ended 30-Jun-20	30-Jun-19	Six months ended 30-Jun-20	30-Jun-19	Year ended 31-Dec-19
Contract revenue					
- Proprietary contracts	15.5	47.6	62.1	101.2	228.7
- Reimbursable	1.0	3.1	2.5	9.4	12.9
- Bare boat charter	5.6	6.8	12.3	13.5	27.2
	22.1	57.5	76.9	124.1	268.8
Multi-client revenue					
- Prefunding	-	-	-	8.2	8.2
- Late sales	-	3.6	0.1	3.6	5.9
	-	3.6	0.1	11.8	14.1
Other income	-	3.7	0.4	4.2	5.7
Total	**22.1**	**64.8**	**77.4**	**140.1**	**288.6**

Revenues decreased 66% in Q2 2020 to USD 22.1 million (Q2 2019: USD 64.8 million) mainly driven by reduced proprietary contract revenue and reduction in multi-client revenue and other income.

Proprietary contract revenue decreased to USD 15.5 million (Q2 2019: USD 47.6 million) mainly due to the combined reduction in utilization and pricing achieved for the Company's core fleet during the quarter as well as the absence of revenue from the hybrid project using third-party vessels recognized in Q2 2019.

Reimbursable revenue in the quarter decreased to USD 1.0 million (Q2 2019: USD 3.1 million). Bareboat charter revenue decreased to USD 5.6 million (Q2 2019: USD 6.8 million) as a result of V. Tikhonov not receiving charter hire from 31 May 2020. There was no multi-client revenue recognized during the quarter (Q2 2019: multi-client late sales of USD 3.6 million). There was no vessel allocation to multi-client projects in the quarter (Q2 2019: nil).

Operating Expenses

(In millions of USD)	Quarter ended 30-Jun-20	30-Jun-19	Six months ended 30-Jun-20	30-Jun-19	Year ended 31-Dec-19
Operating costs	22.8	56.9	66.8	106.4	214.7
Reimbursable cost	0.7	2.6	1.9	8.0	11.1
Gross cost of sales	**23.5**	**59.5**	**68.7**	**114.5**	**225.8**
Net deferred transit adjustment	(0.9)	(14.4)	2.2	(14.4)	(4.8)
Capitalized to multi-client projects	-	-	(7.0)	-	(5.9)
Restructuring costs	1.9	-	1.9	-	-
Onerous contracts	-	-	-	(1.0)	(1.2)
Cost of sales	**24.5**	**45.1**	**65.8**	**99.1**	**213.9**

Gross cost of sales in the quarter was USD 23.5 million, 60% lower compared to USD 59.5 million in Q2 2019. This decrease was due to the reduction in vessel utilization, the benefits earned from cost saving measures implemented, as well as elevated costs related to the hybrid project in Q2 2019.

Net transit costs deferred in the quarter was USD 0.9 million (Q2 2019: USD 14.4 million). No costs were capitalized to multi-client projects in the quarter (Q2 2019: nil). Cost of sales in the quarter decreased to USD 24.5 million (Q2 2019: USD 45.1 million).

During the quarter, the Company recognized USD 2.0 million non-recurring restructuring costs associated with the organization reshape announced in June 2020.

General and administrative costs decreased 26% to USD 2.8 million during the quarter (Q2 2019: USD 3.8 million).

Depreciation and amortization

Depreciation and amortization during the quarter was USD 6.7 million (Q2 2019: USD 6.4 million). There was no amortization of multi-client projects in the quarter (Q2 2019: USD 0.9 million).

The Company undertook an impairment review of its property, plant and equipment ("PP&E") during the quarter as the adverse market conditions caused by Covid-19 pandemic and the drop in oil price were considered to be an impairment indicator. The resulting recoverable amount of PP&E was lower than at 31 March 2020 but higher than their respective carrying values. The impairment assessment is based on the Value in Use (VIU) method. The assumptions used in the forecast cash flows are based on externally available information, where possible, and historically achieved rates. Where such historical or external data is not available or is limited, the assumptions are also based on the Group's expectations about the future. Depending on market developments, impairments of PP&E may arise in future periods.

Net profit and earnings per share

The Company recorded a net loss of USD 20.7 million in Q2 2020, compared to a net profit of USD 0.6 million in same quarter last year. During the quarter the Company incurred income tax expenses of USD 0.7 million (no income tax expenses during Q2 2019). Basic and diluted earnings per share for the quarter was a loss of USD 0.04 per share (Q2 2019: profit of USD 0.001 per share).

Capital expenditure

	Quarter ended		Six months ended		Year ended
(In millions of USD)	**30-Jun-20**	**30-Jun-19**	**30-Jun-20**	**30-Jun-19**	**31-Dec-19**
Seismic and other equipment	1.5	5.1	6.2	6.3	18.9
Other	0.1	-	0.6	-	0.3
Total	**1.6**	**5.1**	**6.8**	**6.3**	**19.2**

Capital expenditure during the quarter was USD 1.6 million (Q2 2019: USD 5.1 million), mainly related to additional investment in in-sea equipment.

Cash flow and liquidity

Net cash flow from operating activities in Q2 2020 was USD 12.7 million (Q2 2019: USD 4.9 million). Net cash flow used in investing activities was USD 4.5 million (Q2 2019: USD 1.8 million). During the quarter, the Company invested USD 0.4 million in multi-client projects (Q2 2019: nil) and USD 4.0 million in property, plant and equipment (Q2 2019: USD 1.8 million).

Net cash flow used in financing activities was USD 19.0 million (Q2 2019: USD 8.2 million). Interest paid during the quarter was USD 4.3 million (Q2 2019: USD 3.8 million). Repayment of interest-bearing debt in the quarter was USD 5.1 million (Q2 2019: USD 4.1 million). During the quarter, the Company deposited net USD 9.2 million into restricted bank accounts. This restricted cash is earmarked for servicing a part of the Company's interest-bearing debt for the period up to December 2020.

Total cash held at the quarter end was USD 44.8 million, including restricted cash of USD 10.4 million (total cash of USD 23.8 million held at 30 June 2019, including USD 1.2 million restricted cash).

Vessel utilization

	Quarter ended		Six months ended		Year ended
	30-Jun-20	**30-Jun-19**	**30-Jun-20**	**30-Jun-19**	**31-Dec-19**
Utilization	50%	72%	70%	82%	79%
By category:					
Contract*	50%	72%	65%	82%	77%
Multi-Client	-	-	5%	-	2%
Transit	3%	23%	3%	15%	13%
Yard stay	-	1%	1%	1%	5%
Standby	47%	4%	26%	2%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

**Includes the vessels V. Tikhonov and Ivan Gubkin on bareboat charters.*
Polarcus Nadia is excluded from vessel utilization subsequent to stacking in 2015.

Vessel utilisation of 50% was lower during the quarter compared to 72% in Q2 2019 as a result of increased standby time. V.Tikhonov is reported on Standby from 31 May 2020 as per announcement dated 24 June 2020.

Excluding the vessels on bareboat charters (and Polarcus Nadia), utilization for the Company's core fleet was 34% for the quarter (Q2 2019: 57%).

Interim consolidated statement of comprehensive income

(In thousands of USD)	Notes	Quarter ended 30-Jun-20	30-Jun-19	Six months ended 30-Jun-20	30-Jun-19	Year ended 31-Dec-19
Revenues						
Contract revenue	3	22,124	57,529	76,946	124,056	268,825
Multi-client revenue	3	26	3,603	87	11,765	14,054
Other income	3	-	3,712	400	4,233	5,712
Total Revenues		**22,150**	**64,845**	**77,433**	**140,054**	**288,591**
Operating expenses						
Cost of sales	4	(24,478)	(45,075)	(65,762)	(99,063)	(213,904)
General and administrative costs		(2,818)	(3,792)	(5,610)	(6,720)	(13,318)
Depreciation and amortization	5	(6,749)	(6,432)	(12,424)	(12,946)	(25,886)
Multi-client amortization	6	-	(856)	(644)	(9,874)	(11,233)
Total Operating expenses		**(34,045)**	**(56,155)**	**(84,440)**	**(128,603)**	**(264,341)**
Operating profit/(loss)		**(11,895)**	**8,690**	**(7,007)**	**11,450**	**24,250**
Finance costs	7	(8,897)	(8,289)	(17,741)	(16,617)	(34,217)
Finance income		720	234	1,087	481	1,013
		(8,177)	**(8,055)**	**(16,654)**	**(16,136)**	**(33,204)**
Profit/(loss) before tax		**(20,072)**	**635**	**(23,661)**	**(4,685)**	**(8,954)**
Income tax expense		(675)	-	(1,333)	(13)	(1,080)
Net profit/(loss) and total comprehensive income/(loss)		**(20,747)**	**635**	**(24,994)**	**(4,698)**	**(10,034)**
Earnings per share attributable to the equity holders during the period *(In USD)*						
- Basic		(0.040)	0.001	(0.049)	(0.009)	(0.020)
- Diluted		(0.040)	0.001	(0.049)	(0.009)	(0.020)

Interim consolidated statement of financial position

(In thousands of USD)	Notes	30-Jun-20	30-Jun-19	31-Dec-19
Assets				
Non-current Assets				
Property, plant and equipment	8	357,416	363,419	363,335
Multi-client project library	6	14,726	2,287	7,030
Right-of-use assets	9	3,485	2,056	1,572
Intangible assets		618	-	290
Total Non-current Assets		**376,245**	**367,761**	**372,227**
Current Assets				
Receivable from customers		20,791	52,057	32,078
Other current assets		14,080	26,806	17,926
Restricted cash		10,408	1,183	1,235
Cash and bank		34,436	22,594	35,234
Total Current Assets		**79,715**	**102,641**	**86,473**
Total Assets		**455,960**	**470,402**	**458,700**
Equity and Liabilities				
Equity				
Issued share capital		51,379	51,379	51,379
Share premium		635,906	635,906	635,906
Other reserves		25,608	26,008	25,369
Retained earnings/(loss)		(669,091)	(639,653)	(644,097)
Total Equity		**43,802**	**73,640**	**68,557**
Non-current Liabilities				
Interest bearing debt	10	329,196	326,651	326,244
Lease liabilities	9	2,210	1,010	532
Total Non-current Liabilities		**331,406**	**327,661**	**326,776**
Current Liabilities				
Interest bearing debt	10	32,426	10,600	10,600
Lease liabilities	9	1,266	940	860
Provisions		-	117	-
Accounts payable		9,958	31,443	14,771
Other accruals and payables		37,102	26,000	37,136
Total Current Liabilities		**80,752**	**69,101**	**63,367**
Total Equity and Liabilities		**455,960**	**470,402**	**458,700**

Interim consolidated statement of cash flows

(In thousands of USD)	Notes	Quarter ended 30-Jun-20	Quarter ended 30-Jun-19	Six months ended 30-Jun-20	Six months ended 30-Jun-19	Year ended 31-Dec-19
Cash flows from operating activities						
Profit/(loss) for the period before income tax		(20,072)	635	(23,661)	(4,685)	(8,954)
Adjustment for:						
Depreciation and amortization	5	6,749	6,432	12,424	12,946	25,886
Multi-client amortization	6	-	856	644	9,874	11,233
Gain on sale of assets		-	-	-	-	(1,117)
Employee share based incentives		105	(81)	239	47	300
Interest expense	7	8,433	8,188	16,920	16,363	33,542
Interest income		-	(102)	(79)	(224)	(370)
Income tax paid		-	-	-	(13)	(30)
Effect of currency (gain)/loss		(77)	68	297	100	133
Net movements in provisions		-	-	-	(1,043)	(1,160)
Net working capital movements		17,542	(11,074)	10,416	(22,616)	1,440
Net cash flows from operating activities		**12,680**	**4,923**	**17,202**	**10,748**	**60,903**
Cash flows from investing activities						
Payments for property, plant and equipment		(3,958)	(1,802)	(7,258)	(2,203)	(16,727)
Payments for multi-client library	6	(435)	-	(7,894)	-	(6,071)
Payments for intangible assets		(109)	-	(327)	-	(290)
Proceeds from sale of multi-client library		-	-	-	-	1,400
Net cash flows used in investing activities		**(4,502)**	**(1,802)**	**(15,479)**	**(2,203)**	**(21,688)**
Cash flows from financing activities						
Net receipt from bank loans	10	-	-	25,000	-	-
Repayment of interest bearing debt		(5,150)	(4,150)	(7,300)	(6,300)	(14,000)
Lease liabilities paid	9	(296)	(189)	(565)	(372)	(930)
Interest paid		(4,308)	(3,836)	(9,817)	(8,946)	(18,311)
Other finance costs paid		(74)	(196)	(250)	(450)	(970)
Decrease/(Increase) in restricted cash		(9,171)	84	(9,174)	(30)	(82)
Interest received		-	102	79	224	370
Net cash flows used in financing activities		**(18,999)**	**(8,185)**	**(2,027)**	**(15,874)**	**(33,923)**
Effect of foreign currency revaluation on cash		(163)	(55)	(494)	(82)	(63)
Net increase/(decrease) in cash and cash equivalents		**(10,984)**	**(5,119)**	**(798)**	**(7,411)**	**5,229**
Cash and cash equivalents at the beginning of the period		45,420	27,713	35,234	30,005	30,005
Cash and cash equivalents at the end of the period		**34,436**	**22,594**	**34,436**	**22,594**	**35,234**

Interim consolidated statement of changes in equity

For the six months ended 30 June 2020

(In thousands of USD except for number of shares)	**Number of Shares**	**Issued Share capital**	**Share Premium**	**Other Reserves**	**Retained Earnings/ (Loss)**	**Total Equity**
Balance as at 1 January 2020	**513,786,713**	**51,379**	**635,906**	**25,369**	**(644,097)**	**68,557**
Total comprehensive loss for the period		-	-	-	(24,994)	(24,994)
Employee share based incentives		-	-	239	-	239
Balance as at 30 June 2020	**513,786,713**	**51,379**	**635,906**	**25,608**	**(669,091)**	**43,802**

For the six months ended 30 June 2019

(In thousands of USD except for number of shares)	**Number of Shares**	**Issued Share capital**	**Share Premium**	**Other Reserves**	**Retained Earnings/ (Loss)**	**Total Equity**
Balance as at 1 January 2019	**513,786,713**	**51,379**	**635,906**	**25,961**	**(634,955)**	**78,291**
Total comprehensive loss for the period		-	-	-	(4,698)	(4,698)
Employee share based incentives		-	-	47	-	47
Balance as at 30 June 2019	**513,786,713**	**51,379**	**635,906**	**26,008**	**(639,653)**	**73,640**

For the year ended 31 December 2019

(In thousands of USD except for number of shares)	**Number of Shares**	**Issued Share capital**	**Share Premium**	**Other Reserves**	**Retained Earnings/ (Loss)**	**Total Equity**
Balance as at 1 January 2019	**513,786,713**	**51,379**	**635,906**	**25,961**	**(634,955)**	**78,291**
Total comprehensive loss for the period		-	-	-	(10,034)	(10,034)
Employee share based incentives		-	-	300	-	300
Other movements*		–	–	(892)	892	-
Balance as at 31 December 2019	**513,786,713**	**51,379**	**635,906**	**25,369**	**(644,097)**	**68,557**

*Other movements represent the fair value of employee stock options unexercised and expired during the period.

Notes to the interim consolidated financial statements

1 General information

The interim consolidated financial statements of Polarcus Limited (the "Company") and its subsidiaries (together referred to as the "Group" or "Polarcus") for the quarter and six months ended 30 June 2020 were authorized for issue in accordance with a resolution of the Board of Directors passed on 21 July 2020.

Polarcus is a focused geophysical service provider of safe and environmentally responsible marine acquisition services globally. The Group's geophysical offering is driven by innovation and collaboration to provide clients with better seismic data faster. Polarcus operates a fleet of high performance seismic vessels with 3D and 4D imaging capabilities, which incorporate leading-edge technologies for improved environmental performance and operational efficiency. Polarcus offers contract seismic surveys and multi-client projects with advanced priority processing solutions including Cirrus™, a suite of cloud-based applications and services designed to bring clients closer to acquired seismic data, enabling faster and better informed exploration decisions. The Group services its clients globally from its head office in Dubai and regional offices located in Houston, London, and Singapore; and delivers Group's asset management services from its office in Oslo.

Polarcus Limited is incorporated in the Cayman Islands with its registered office at Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. The Company is listed on Oslo Børs with ticker PLCS.

1.1 Going concern

These interim consolidated financial statements for the quarter and six months ended 30 June 2020 are prepared using the going concern assumption. As described below, this assumption is subject to material uncertainty.

The Company's expected 2020 earnings have been negatively impacted by the rapid decline in the oil price in March 2020, spending reductions announced by E&P companies and the continuing global imperative to mitigate the effects of COVID-19. Certain hydrocarbon exploration and production investments, expected to utilize marine seismic acquisition in 2020, may not be commercially viable for E&P companies in the foreseeable future or may be compromised by operational restrictions which hinder or prevent project performance. This has led to reduced levels of current or prospective backlog for the Group through project cancellations, reductions in scope or deferrals of project awards. The Group's ability to continue as a going concern is dependent upon it securing suitable backlog.

During March 2020, the Company announced enhanced business continuity measures and a substantial cost reduction plan, to help ensure continued efficient operations and to strengthen the financial resilience of the Company through 2020. The plan is expected to deliver cash cost savings of approximately USD 15 million during 2020 across capital expenditures, operating expenses, and general and administrative costs.

Furthermore, on 22 June 2020, the Company announced an organisational reshape reducing the size of the onshore and offshore organisations while maintaining flexibility to manage the anticipated fluctuation in activity levels. The organisational reshape is estimated to realize an additional annualised reduction in the Company's operating costs of more than USD 7 million to further improve the financial resilience of the Company. A one-off associated cost of USD 2 million has been recognised in Q2 2020.

In June 2020 the Company agreed certain amendments concerning repayment of the USD 25 million draw down from its USD 40 million working capital facility ("WCF") and to the minimum Working Capital covenant which is reset to be not negative by more than USD 5 million for the period from 1 June 2020 to 1 January 2021 (as opposed to being positive at all times). This will provide increased flexibility in the near-term (refer to Note 10 Interest bearing debt).

The Group's financial projections used in its going concern evaluation are based on certain assumptions about the future, including those related to future contract awards, contract pricing, vessel utilization, execution of projects, management of fleet operating cost, expected future capex investment and availability of funding. Based on these assumptions, the Group expects to have sufficient liquidity to operate for the next 12 months from the balance sheet date.

The Company's Management and the Board of Directors are closely monitoring the evolving global situation regarding both COVID-19 and the oil price and their impact on going concern assumptions, cash flow forecasts and compliance with financial covenants.

Backlog at 30 June 2020 and value of awards announced after the quarter end is estimated at USD 141 million compared to USD 200 million at the same time last year. The Company's fleet is 40% booked for the remainder of 2020. The Company remains in compliance with all its financial covenants.

2 Basis of presentation

These interim consolidated financial statements for the quarter and six months ended 30 June 2020 are prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended 31 December 2019 as published and available at the Company's website www.polarcus.com.

The accounting policies applied by the Company in these interim consolidated financial statements are consistent with those applied in the audited consolidated financial statements for the year ended 31 December 2019 unless otherwise stated below. Refer to Note 2 *Summary of significant accounting policies* in the Consolidated Financial Statements in the 2019 Annual Report for information on the Company's accounting policies.

2.1 Accounting for withholding taxes

The Group re-assessed its accounting policy for withholding taxes following a general review of the Group's tax policies. The Group had previously accounted for all withholding taxes either net of revenue or as operating expenses in the income statement in the year of occurrence. Effective 1 January 2020, the Group has elected to change its method of accounting for withholding taxes whereby such taxes will either be presented as income tax or operating expenses considering the nature of each withholding tax incurred. The Group has applied this change in accounting policy prospectively.

The Group believes that this method provides more relevant information to the users of financial statements and is more consistent with practices adopted by industry peers. This method further aligns the accounting application within the Group's financial statements to acceptable tax compliance treatments. This change in accounting policy has not had a material impact on comparative information presented within these financial statements and does not impact the balance of retained earnings brought forward from previous periods. Therefore, comparative information has not been restated.

Following adoption of the change in accounting policy, the withholding taxes included in the current income tax expense for the quarter and six months ended 30 June 2020 amounts to USD 0.4 million and USD 1.1 million respectively (quarter and six months ended 30 June 2019: nil).

3 Segment information

The chief operating decision maker of the Company reviews all activities of the Company as one segment, adjusted for non-recurring items and for the impact of adopting IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 has an impact on the timing of recognition of multi-client prefunding revenue and associated multi-client amortization. While reviewing the financial performance of the Company, management has, for the purposes of internal reporting, continued to report according to the revenue recognition principles applied prior to the adoption of IFRS 15, whereby multi-client prefunding revenue is recognized on a percentage of completion basis.

The numbers under the Segment column in the table below include the multi-client prefunding revenue and the amortization of multi-client projects that the Company would have recognized if the Company had followed the accounting policies that were in place prior to the adoption of IFRS 15. Non-recurring items, if any, are excluded from the Segment information in order to compare the underlying performance with the prior periods.

	Quarter ended 30-Jun-20			Quarter ended 30-Jun-19		
(In thousands of USD)	**Segment**	**Adjustments[1]**	**As reported**	**Segment**	**Adjustments[2]**	**As reported**
Revenues						
Contract revenue	22,124	-	22,124	57,529	-	57,529
Multi-client prefunding	626	(626)	-	-	-	-
Multi-client late sales	26	-	26	3,603	-	3,603
Other income	-	-	-	3,712	-	3,712
Total Revenues	**22,776**	**(626)**	**22,150**	**64,845**	**-**	**64,845**
Cost of sales	(22,569)	(1,909)	(24,478)	(45,075)	-	(45,075)
General and administrative costs	(2,727)	(91)	(2,818)	(3,792)	-	(3,792)
EBITDA	**(2,520)**	**(2,626)**	**(5,146)**	**15,978**	**-**	**15,978**
Depreciation and amortization	(6,749)	-	(6,749)	(6,432)	-	(6,432)
Multi-client amortization	(421)	421	-	(856)	-	(856)
Operating profit/(loss) (EBIT)	**(9,690)**	**(2,205)**	**(11,895)**	**8,690**	**-**	**8,690**
Net financial expense	(8,177)	-	(8,177)	(8,055)	-	(8,055)
Profit/(loss) before tax	**(17,867)**	**(2,205)**	**(20,072)**	**635**	**-**	**635**
Other key segment reporting items:						
Net Working capital movement	16,916	626	17,542	(11,074)	-	(11,074)
Multi-client library net book value	556	14,171	14,726	2,287	-	2,287

	Six months ended 30-Jun-20			Six months ended 30-Jun-19		
(In thousands of USD)	**Segment**	**Adjustments[1]**	**As reported**	**Segment**	**Adjustments[2]**	**As reported**
Revenues						
Contract revenue	76,946	-	76,946	124,056	-	124,056
Multi-client prefunding	11,638	(11,638)	-	55	8,106	8,161
Multi-client late sales	87	-	87	3,603	-	3,603
Other income	400	-	400	4,233	-	4,233
Total Revenues	**89,071**	**(11,638)**	**77,433**	**131,948**	**8,106**	**140,054**
Cost of sales	(63,853)	(1,909)	(65,762)	(99,063)	-	(99,063)
General and administrative costs	(5,519)	(91)	(5,610)	(6,720)		(6,720)
EBITDA	**19,699**	**(13,638)**	**6,061**	**26,164**	**8,106**	**34,270**
Depreciation and amortization	(12,424)	-	(12,424)	(12,946)	-	(12,946)
Multi-client amortization	(8,429)	7,785	(644)	(1,713)	(8,161)	(9,874)
Operating profit/(loss) (EBIT)	**(1,154)**	**(5,853)**	**(7,007)**	**11,506**	**(55)**	**11,450**
Net financial expense	(16,654)	-	(16,654)	(16,136)	-	(16,136)
Profit/(loss) before tax	**(17,808)**	**(5,853)**	**(23,661)**	**(4,630)**	**(55)**	**(4,685)**
Other key segment reporting items:						
Net Working capital movement	(1,222)	11,638	10,416	(14,510)	(8,106)	(22,616)
Multi-client library net book value	556	14,171	14,726	2,287	-	2,287

(In thousands of USD)	Year ended 31-Dec-19 Segment	Adjustments²	As reported
Revenues			
Contract revenue	268,825	-	268,825
Multi-client prefunding	10,181	(2,020)	8,161
Multi-client late sales	5,893	-	5,893
Other income	5,712	-	5,712
Total Revenues	**290,611**	**(2,020)**	**288,591**
Cost of sales	(213,904)	-	(213,904)
General and administrative costs	(13,318)		(13,318)
EBITDA	**63,389**	**(2,020)**	**61,369**
Depreciation and amortization	(25,886)	-	(25,886)
Multi-client amortization	(9,457)	(1,776)	(11,233)
Operating profit/(loss) (EBIT)	**28,046**	**(3,796)**	**24,250**
Net financial expense	(33,204)	-	(33,204)
Profit/(loss) before tax	**(5,158)**	**(3,796)**	**(8,954)**
Other key segment reporting items:			
Net Working capital movement	(580)	2,020	1,440
Multi-client library net book value	13,416	6,386	7,030

[1] = includes IFRS 15 related adjustments and non-recurring expenses related to Q2 2020 organisational reshape (refer to Note 1.1)
[2]= includes IFRS 15 related adjustments only

4 Cost of sales

(In thousands of USD)	Quarter ended 30-Jun-20	Quarter ended 30-Jun-19	Six months ended 30-Jun-20	Six months ended 30-Jun-19	Year ended 31-Dec-19
Operating costs	22,780	56,879	66,784	106,449	214,654
Reimbursable cost	744	2,582	1,905	8,044	11,119
Gross cost of sales	**23,524**	**59,461**	**68,689**	**114,493**	**225,773**
Net deferred transit adjustment	(955)	(14,386)	2,168	(14,386)	(4,764)
Onerous contract provision unwinding	-	-	-	(1,043)	(1,160)
Capitalized to multi-client projects	-	-	(7,004)	-	(5,945)
Restructuring costs	1,909	-	1,909	-	-
Cost of sales	**24,478**	**45,075**	**65,762**	**99,063**	**213,904**

5 Depreciation and amortization

(In thousands of USD)	Quarter ended 30-Jun-20	Quarter ended 30-Jun-19	Six months ended 30-Jun-20	Six months ended 30-Jun-19	Year ended 31-Dec-19
Depreciation of seismic vessels and equipment	6,340	6,148	12,038	12,382	25,065
Depreciation of office equipment	48	42	96	85	173
Amortization of Right-of-use assets	361	242	736	479	963
Depreciation capitalized to multi-client library	-	-	(446)	-	(315)
Total	**6,749**	**6,432**	**12,424**	**12,946**	**25,886**

6 Multi-client project library

(In thousands of USD)	Quarter ended 30-Jun-20	Quarter ended 30-Jun-19	Six months ended 30-Jun-20	Six months ended 30-Jun-19	Year ended 31-Dec-19
Balance at the beginning of the period	14,291	3,143	7,030	12,160	12,160
Investments during the period	435	-	7,894	-	6,071
Capitalized depreciation	-	-	446	-	315
Sale of multi-client library	-	-	-	-	(283)
Amortization	-	(856)	(644)	(9,874)	(11,233)
Balance at the period end	**14,726**	**2,287**	**14,726**	**2,287**	**7,030**

6.1 Investments in multi-client library

Investments and depreciation capitalized to the multi-client library during the quarter and six months ended 30 June 2020 represents the investments in two different multi-client projects in Australia. The Company expects the data processing for these projects to be completed and data to be delivered to the clients during Q4 2020. As at 30 June 2020 the Company has collected USD 19.5 million from customers towards prefunding for these projects, which has been recognized as a liability (under "Other accruals and payables") in the statement of financial position.

7 Finance costs

	Quarter ended		Six months ended		Year ended
(In thousands of USD)	**30-Jun-20**	**30-Jun-19**	**30-Jun-20**	**30-Jun-19**	**31-Dec-19**
Interest expenses on bond loans	3,526	3,295	7,206	6,559	13,412
Interest expenses on other interest bearing debt	4,798	4,690	9,403	9,338	19,126
Interest expense on leases	35	7	61	15	35
Net interest expenses	**8,359**	**7,993**	**16,670**	**15,912**	**32,572**
Other finance costs	74	196	250	450	970
Currency exchange losses	464	101	821	254	675
Total	**8,897**	**8,289**	**17,741**	**16,617**	**34,217**

8 Property, plant and equipment

(In thousands of USD)

	Seismic vessels and equipment	**Office equipment**	**Total**
Costs			
Balance as at 1 January 2020	1,076,884	3,632	1,080,516
Additional capital expenditures	6,168	47	6,215
Balance as at 30 June 2020	1,083,052	3,680	1,086,732
Depreciation and impairments			
Balance as at 1 January 2020	713,900	3,281	717,181
Depreciation for the period	12,038	96	12,134
Balance as at 30 June 2020	725,938	3,378	729,316
Carrying amounts			
As at 1 January 2020	362,984	351	363,335
As at 30 June 2020	**357,114**	**302**	**357,416**
Pledged assets as at 30 June 2020	353,772	-	353,772

9 Right-of-use assets and lease liabilities

9.1 Right-of-use assets

(In thousands of USD)

	Equipment onboard the vessels	**Office premises**	**Total**
Balance as at 1 January 2020	1,174	398	1,572
Additions	2,649	-	2,649
Depreciation expense	(612)	(124)	(736)
Balance as at 30 June 2020	**3,211**	**274**	**3,485**

The USD 2.6 million additions to the right-of-use assets during the six months ended 30 June 2020 represents a new agreement entered into for the data processing hardware onboard the Group's vessels. Prior to the new agreement, this equipment was held on short-term leases accounted for as operating expenses in the statement of comprehensive income.

9.2 Lease liabilities

(In thousands of USD)	Quarter ended 30-Jun-20	Quarter ended 30-Jun-19	Six months ended 30-Jun-20	Six months ended 30-Jun-19	Year ended 31-Dec-19
Balance at the beginning of the period	3,772	2,139	1,392	2,323	2,323
Additions	-	-	2,649	-	-
Lease payments during the period	(296)	(189)	(565)	(372)	(930)
Interest expense on leases	35	7	61	15	35
Interest on leases paid	(35)	(7)	(61)	(15)	(35)
Balance at the period end	**3,476**	**1,950**	**3,476**	**1,950**	**1,392**
Of which:					
Current liability portion	1,266	940	1,266	940	860
Non-current liability	2,210	1,010	2,210	1,010	532

During the quarter and six months ended 30 June 2020, the Company recognized rental expenses of USD 1.5 million and 10.5 million respectively, towards short-term leases (USD 7.5 million and USD 21.4 million for the same periods in 2019).

10 Interest bearing debt

(In thousands of USD)	Nominal outstanding value 30-Jun-20	Carrying value 30-Jun-20	Carrying value 30-Jun-19	Carrying value 31-Dec-19
Bond loans				
125M USD secured, convertible bonds - Tranche A	59,830	23,800	20,767	21,821
125M USD convertible bonds - Tranche B	3,829	1,732	1,055	1,394
95M USD unsecured bonds	10,582	5,472	3,761	4,626
350M NOK unsecured bonds	5,443	3,043	2,441	3,019
Total bond loans	**79,684**	**34,047**	**28,025**	**30,861**
Other interest bearing debt				
Fleet bank facility - Tranche 1	41,324	40,416	40,092	40,105
Fleet bank facility - Tranche 2	32,773	33,179	36,141	33,157
Fleet bank facility - Tranche 3	73,865	72,786	76,342	74,612
Fleet bank facility - Tranche 4	86,045	80,888	79,301	80,284
New Fleet Facility for N-Class vessels	74,945	72,638	71,686	72,160
DNB loan facility	2,672	2,668	5,663	5,666
Working capital facility	25,000	25,000	-	-
Total other interest bearing debt	**336,624**	**327,575**	**309,226**	**305,984**
Total Interest bearing debt	**416,308**	**361,622**	**337,251**	**336,844**
Of which:				
Current liability portion		32,426	10,600	10,600
Non-current liability		329,196	326,651	326,244

10.1 Drawdown from USD 40 million working capital facility (“WCF”)

The Company drew down USD 25 million from its USD 40 million WCF on 25 March 2020. The WCF is repayable within nine months following the date of drawdown. In June 2020, the WCF lender agreed that in the event the borrowing base amount falling below USD 25 million during the period ending 1 January 2021, the Company would not be required to prepay any part of the drawdown.

11 Transactions with related parties

Zickerman Group DMCC, a company wholly owned by a Board member Mr. Peter Zickerman, has been engaged by the Company to perform strategic consultancy services. During the quarter and six months ended 30 June 2020 the Company paid USD 0.1 million and USD 0.2 million respectively to Zickerman Group DMCC for consultancy services (same amounts in Q2 and H1 2019).

Alternative performance measures

An Alternative Performance Measure ("APM") is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. APMs are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and the Directors consider that they provide a useful indicator of underlying performance. In response to the Guidelines on APMs issued by the European Securities and Markets Authority (ESMA), the Group has provided additional information on the APMs used by the Group.

Backlog	The aggregate estimated value of future projects for which the Group has a signed contract or letter of award with a client. The Group uses backlog as it gives the amount of committed activity in future periods, thus providing an indication of the Group's future revenue.
CAPEX	Capital expenditure refers to investments in property, plant and equipment, and intangible assets (excluding multi-client library investments), irrespective of whether the amount is paid for in the period. The Group uses CAPEX to indicate the level of its investments in enhancing its capital assets.
EBIT	Profit/(loss) before interest and tax. The Group uses EBIT as it provides an indication of the profitability of the operating activities. The EBIT margin presented is defined as EBIT divided by net revenues.
EBIT (before non-recurring items)	Profit/(loss) before interest and tax, excluding non-recurring items (see definition below).
EBITDA	Operating profit/(loss) after adding back depreciation, impairments and amortization. The Group uses EBITDA because it is useful when evaluating operating profitability as it excludes amortization, depreciation and impairments related to investments that occurred in the past. The EBITDA margin presented is defined as EBITDA divided by net revenues.
EBITDA (before non-recurring items)	Operating profit/(loss) after adding back depreciation, impairments and amortization, excluding non-recurring items.
IFRS-15 adjustments	The effect of adopting IFRS 15 on the Group's consolidated financial statements. The Group uses IFRS-15 adjustments to explain how some of the Group's reported key numbers, post-adoption of IFRS 15, relate to the historic (pre-IFRS 15) key numbers.
Net interest bearing debt	The total book value of the Group's non-current and current debt, less the balance of cash and cash equivalents, as well as any restricted cash that is restricted for the purposes of repaying debt. The Group uses net interest bearing debt as it provides an indication of the Group's debt position by indicating the Group's ability to pay off all its debt if they became due simultaneously using only its available cash.
Non-recurring items	Impairment charges, the cost of onerous contract provisions, restructuring costs and other non-operational costs. The Group believes that non-recurring items should be identified as they are typically non-cash items or non-operational items that are not expected to occur frequently and are not representative of the underlying operational performance of the business.
Prefunding Level	The prefunding level is calculated by dividing the multi-client prefunding revenues by the cash investments in the multi-client library. The Prefunding Level is considered as an important measure as it indicates how the Group's financial risk is reduced on multi-client investments.

Segment EBITDA	Operating profit/(loss) using Segment revenue (see below) after adding back depreciation, impairments, amortization and non-recurring items. Non-recurring items are excluded from the Segment information in order to compare the performance with the prior periods. This measure provides additional information in assessing the Group's underlying performance that management is more directly able to influence in the short term and on a basis comparable from year to year. The Segment EBITDA margin presented is defined as Segment EBITDA divided by Segment revenue.
Segment revenue	The revenue in the period based on those reported but excluding the impact of IFRS 15, so accounted for based on the revenue recognition principles prevailing before the mandatory adoption of IFRS 15 on 1 January 2018. The Group uses Segment revenue to allow consistency with prior accounting periods, which increases the comparability of the financial performance across periods.
Total cash	The total of restricted and unrestricted cash held by the Group at the reporting date. The Group uses total cash as it provides an indication of the Group's complete cash position.

The non-IFRS financial measures presented herein are not recognised measurements of financial performance under IFRS, however are used by the Group to monitor and analyse the underlying performance of its business and operations. These should not be considered as an alternative to profit and loss for the period, operating profit for the period or any other measures of performance under generally accepted accounting principles. The Group believes that the non-IFRS measures presented herein are commonly used by investors in comparing performance between companies.

Accordingly, the Group discloses the non-IFRS financial measures presented herein to permit a more complete and comprehensive analysis of its operating performance relative to other companies across periods. Because other companies may calculate the non-IFRS financial measures presented herein differently, the non-IFRS financial measures presented herein may not be comparable to similarly defined terms or measures used by other companies.

EBIT (before non-recurring items) and EBITDA (before non-recurring items) shows the EBIT and EBITDA of the Group after adjustments for non-recurring items including impairment charges, the cost of onerous contract provisions and restructuring costs. These APMs are financial performance measures that are adjusted for the impact of items that are not considered by the Group to be part of the underlying core business as they are more irregular in both amount and frequency of occurrence.

Statement pursuant to Section 5-6 of the Securities Trading Act

We confirm that, to the best of our knowledge, these interim consolidated financial statements for the quarter and six months ended 30 June 2020, which has been prepared in accordance with IAS 34 *Interim Financial Reporting*, gives a true and fair view of the Company's consolidated assets, liabilities, financial position and results of operations, and that the interim report includes a fair review of the information under the Norwegian Securities Trading Act section 5–6 fourth paragraph.

21 July 2020

The Board of Directors and CEO of Polarcus Limited