Polarcus®

Second Quarter and Preliminary Half Year Report

2019

Polarcus Limited

SECOND QUARTER AND PRELIMINARY HALF YEAR RESULTS 2019

Significant earnings increase and strong operational performance

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 2018 include impairments, onerous contract provisions and restructuring costs. See Note 3 in the accompanying interim financial statements for further details.

HEADLINES Q2 2019

- Segment revenues of USD 64.8 million, up 34% from Q2 2018
- Segment EBITDA of USD 16.0 million, up 122% from Q2 2018
- Cash from operations of USD 4.9 million, increased by USD 11.1 million compared to Q2 2018
- Total cash balance of USD 23.8 million (excluding the USD 40 million WC facility)
- Vessel utilization of 72% impacted by vessel repositioning early in the quarter
- Strong operational performance with low technical downtime
- Multi-client late sales of USD 3.6 million
- Backlog of USD 200 million, up from USD 150 million at the same time last year

Segment revenues of USD 64.8 million in Q2 2019, increased 34% year-on-year driven by a 50% improvement in day rates compared to the same quarter last year. Revenue growth was achieved despite a reduction in utilization of the Company's fleet to 72% compared to 85% in Q2 2018 as vessels were repositioned early in the quarter for new projects. The revenue increase was also supported by the first Polarcus hybrid project (towed streamer and ocean bottom node) that was completed during the quarter and USD 3.6 million in multi-client late sales compared to zero in Q2 2018.

Cost of sales of USD 45.1 million increased 19% year-on-year mainly due to the operating costs related to the hybrid project, offset by deferred costs associated with transits and mobilisations to new projects. General and administrative costs increased to USD 3.8 million compared to USD 3.4 million in Q2 2018.

Segment EBITDA increased by 122% during the quarter to USD 16.0 million compared with USD 7.2 million in Q2 2018. The significant improvement in EBITDA was driven by improved revenue combined with continued focus on cost management. During the quarter, USD 3.7 million was recognised as other income from an insurance claim relating to damaged seismic equipment.

Cash generated from operations during the quarter improved to USD 4.9 million, compared to negative USD 6.2 million in Q2 2018. Cash from operations was impacted by a USD 11.1 million negative net working capital movement. Total cash at the quarter end was USD 23.8 million (excluding the USD 40 million working capital facility), compared to USD 29.0 million at the end of the previous quarter.

The Company was awarded a multi-vessel wide-azimuth project totaling 6 vessel months which will commence in August 2019. This award demonstrates the Company's highly-rated credentials with top tier clients to execute operationally complex projects, underpinned by the safe, efficient and high-quality services that Polarcus delivers.

The Company's secured backlog at 30 June 2019 is estimated at USD 200 million compared to USD 150 million at the same time last year. We continue to focus on identifying opportunities where we can secure an appropriate premium for our technical and operational differentiation.

HEADLINES H1 2019

- Segment revenues of USD 131.9 million, up 49% from H1 2018
- EBITDA of USD 26.2 million, up 35% from H1 2018
- Cash from operations of USD 10.7 million, increased by USD11.3 million compared to H1 2018
- Vessel utilization of 82%, compared to 84% in H1 2018

Segment revenues of USD 131.9 million in the first half of 2019 increased by 49% compared to the same period last year mainly driven by improved day rates which have increased by around 35% and revenue from the first Polarcus hybrid project that was completed during H1.

Cost of sales was USD 99.1 million in the first half of 2019, compared to USD 82.3 million in the first half of 2018 before the results were positively affected by USD 33.5 million in accounting gains from the 2018 financial restructuring and costs capitalized as part of multi-client projects. No costs were capitalized to multi-client projects in 2019. The increase in cost of sales was driven by the operating costs related to the hybrid project and project specific costs. General and administrative costs of USD 6.7 million in the first half of 2019 decreased by 11% compared to the same period last year through continued disciplined management of costs.

There was a solid improvement in underlying profitability year-on-year with segment EBITDA increasing by 35% to USD 26.2 million in the first half of 2019 compared to USD 19.4 million in the same period last year. Cash generated from operations during first half of 2019 improved to USD 10.7 million, compared to negative USD 0.6 million in the same period last year, despite a negative net working capital movement of USD 14.5 million during the period, relating to transit and mobilisation costs.

KEY FINANCIALS

	Quarter ended		Six months ended		Year ended
(In millions of USD)	**30-Jun-19**	**30-Jun-18**	**30-Jun-19**	**30-Jun-18**	**31-Dec-18**
Segment reporting					
Revenues	64.8	48.4	131.9	88.6	202.2
EBITDA	16.0	7.2	26.2	19.4	29.1
EBIT	8.7	(5.8)	11.5	(13.0)	(19.8)
Net working capital movement	(11.1)	(11.2)	(14.5)	(13.4)	(11.9)
As per IFRS					
Revenues	64.8	44.6	140.1	75.3	228.9
EBITDA	16.0	3.4	34.3	18.9	67.5
EBITDA (before non-recurring items)	16.0	3.4	34.3	6.1	55.9
EBIT	8.7	(0.8)	11.5	4.4	(15.3)
EBIT (before non-recurring items)	8.7	(5.1)	11.5	(9.8)	(25.1)
Net profit/(loss) for the period	0.6	(8.1)	(4.7)	(5.3)	(31.8)
Basic earnings/(loss) per share (USD)	0.001	(0.016)	(0.009)	(0.014)	(0.071)
Net cash flows from operating activities	4.9	(6.2)	10.7	(0.6)	11.3
Total assets (period end)	470.4	527.7	470.4	527.7	465.6
Total liabilities (period end)	396.8	423.2	396.8	423.2	387.3
Total Equity (period end)	73.6	104.4	73.6	104.4	78.3
Equity Ratio	16%	20%	16%	20%	17%
PP&E cash investment	1.8	1.5	2.2	77.6	82.2
Multi-client projects cash investment	-	4.1	-	15.8	18.7
Total cash (period end)	23.8	34.7	23.8	34.7	31.2
Net interest bearing debt (period end)	314.6	307.3	314.6	307.3	306.1

OUTLOOK

An oil price around recent levels is a positive driver for E&P spending. This will increase demand for seismic data acquisition from both E&P companies and multi-client companies.

The reshaping of the seismic industry has led to an expanded client base of more multi-client companies without vessels. As Polarcus becomes one of only three seismic vessel owners operating globally, the marine acquisition segment is positioned to achieve further improved pricing.

The Company's fleet is 80% booked for the second half of 2019 and backlog of USD 200 million. With a young and well-performing fleet, Polarcus is poised to capitalise on the stronger market and will continue to focus on achieving higher margins on new contracts, minimizing costs and delivering operational efficiencies. The Company reiterates its view that it will deliver improved EBITDA and cashflow in 2019 compared to 2018.

Financial Results (In Accordance With IFRS)

(In millions of USD)	Quarter ended 30-Jun-19	Quarter ended 30-Jun-18	Six months ended 30-Jun-19	Six months ended 30-Jun-18	Year ended 31-Dec-18
Contract revenue					
- Proprietary contracts	47.6	32.5	101.2	50.5	130.6
- Reimbursable	3.1	1.6	9.4	3.4	14.3
- Management fees	-	3.5	-	7.1	10.7
- Bare boat charter	6.8	6.8	13.5	13.4	27.1
	57.5	44.4	124.1	74.4	182.7
Multi-client revenue					
- Prefunding	-	-	8.2	-	40.8
- Late sales	3.6	-	3.6	0.1	4.5
	3.6	-	11.8	0.1	45.4
Other income	3.7	0.2	4.2	0.8	0.8
Total	**64.8**	**44.6**	**140.1**	**75.3**	**228.9**

Revenues increased by 45% in Q2 2019 to USD 64.8 million (Q2 2018: USD 44.6 million), driven by the increase in contract revenue, multi-client late sales and revenue from insurance claims (other income).

Total proprietary contract revenue, including reimbursable revenue, increased to USD 50.8 million (Q2 2018: USD 34.1 million). This was driven by an increase of approximately 50% in the day rates achieved by the core vessels and by the revenue from the hybrid project. This increase was partly offset by the lower contract utilization in Q2 2019 and the absence of revenue from vessel management fees compared to Q2 2018.

Revenue from multi-client late sales increased to USD 3.6 million (Q2 2018: nil). There was no revenue from multi-client prefunding recognized during Q2 2019 and Q2 2018.

During Q2 2019 the Company recorded other income of USD 3.7 million (Q2 2018: USD 0.2 million) from insurance claims related to seismic equipment damaged during the quarter.

Operating Expenses

(In millions of USD)	Quarter ended 30-Jun-19	Quarter ended 30-Jun-18	Six months ended 30-Jun-19	Six months ended 30-Jun-18	Year ended 31-Dec-18
Cost of sales	56.9	41.1	106.4	78.8	165.2
Reimbursable cost	2.6	1.8	8.0	3.5	13.9
Gross cost of sales	**59.5**	**42.9**	**114.5**	**82.3**	**179.1**
Net deferred transit adjustment	(14.4)	-	(14.4)	-	-
Net movement in onerous contract provision	-	(2.2)	(1.0)	(5.5)	(5.5)
Capitalized to multi-client projects	-	(2.9)	-	(14.1)	(14.1)
Gain on termination of vessel operating lease	-	-	-	(13.9)	(13.9)
Net movement in bad debt provision	-	-	-	-	0.4
Net cost of sales	**45.1**	**37.8**	**99.1**	**48.8**	**146.0**

Gross cost of sales in the quarter increased to USD 59.5 million (Q2 2018: USD 42.9 million), due to costs related to the hybrid project carried out using third party vessels and other project specific costs. Reimbursable costs were USD 2.6 million (Q2 2018: USD 1.8 million). Net cost of sales increased to USD 45.1 million (Q2 2018: USD 37.8 million). During the quarter the Company deferred net USD 14.4 million of costs related to long term transits and other costs incurred in preparation of upcoming projects (Q2 2018: nil). The Company did not capitalize any costs to multi-client projects during the quarter (Q2 2018: USD 2.9 million).

General and administrative costs increased by 12% to USD 3.8 million, compared to USD 3.4 million in Q2 2018.

Depreciation and amortization

Depreciation and amortization during the quarter was USD 6.4 million (Q2 2018: USD 6.8 million). Amortization of multi-client projects decreased to USD 0.9 million (Q2 2018: USD 1.7 million).

Net profit and earnings per share

The Company recorded a net profit of USD 0.6 million in Q2 2019 (Q2 2018: loss of USD 8.1 million) and a basic and diluted EPS of USD 0.001 per share (Q2 2018: loss of USD 0.016 per share).

Cash flow and liquidity

Net cash flow from operating activities in the second quarter 2019 was USD 4.9 million (Q2 2018: negative USD 6.2 million). The net working capital movement, excluding movements related to IFRS 15 accounting, was negative USD 11.1 million in the quarter (Q2 2018: negative USD 11.2 million).

Net cash flow used in investing activities was USD 1.8 million (Q2 2018: USD 5.6 million). The Company did not make any payments related to multi-client projects during the quarter (Q2 2018: USD 4.1 million).

Net cash flow used in financing activities was USD 8.2 million (Q2 2018: inflow of USD 0.4 million, due to USD 4.9 million equity raised through private placement). Interest paid during the quarter was USD 3.8 million (Q2 2018: USD 3.0 million). Repayment of interest-bearing debt in the quarter was USD 4.1 million (Q2 2018: USD 1.5 million).

The Company's cash and cash equivalents at the quarter end was USD 22.6 million (Q2 2018: USD 34.6 million). Total cash held at the quarter end was USD 23.8 million (Q2 2018: USD 34.7 million), including restricted cash of USD 1.2 million (Q2 2018: USD 0.1 million). The Company's USD 40 million working capital facility remained undrawn at the quarter end.

Vessel utilization

	Quarter ended		Six months ended		Year ended
	30-Jun-19	**30-Jun-18**	**30-Jun-19**	**30-Jun-18**	**31-Dec-18**
Utilization	**72%**	**85%**	**82%**	**84%**	**87%**
By category:					
Contract*	72%	81%	82%	73%	82%
Multi-Client	-	4%	-	11%	5%
Transit	23%	14%	15%	13%	10%
Yard stay	1%	-	1%	-	1%
Standby	4%	1%	2%	3%	2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

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

Utilization during Q2 2019 decreased to 72% (Q2 2018: 85%), mainly due to vessels being repositioned for new projects during the quarter. Excluding the vessels on bare boat charters (and Polarcus Nadia), utilization for the Company's core fleet for the quarter was 57% (Q2 2018: 79%).

Interim consolidated statement of comprehensive income

(In thousands of USD)	Notes	Quarter ended 30-Jun-19	Quarter ended 30-Jun-18	Six months ended 30-Jun-19	Six months ended 30-Jun-18	Year ended 31-Dec-18
Revenues						
Contract revenue	3	57,529	44,403	124,056	74,361	182,746
Multi-client revenue	3	3,603	7	11,765	98	45,358
Other income	3	3,712	200	4,233	798	798
Total Revenues		**64,845**	**44,610**	**140,054**	**75,257**	**228,901**
Operating expenses						
Cost of sales	4	(45,075)	(37,786)	(99,063)	(48,756)	(146,027)
General and administrative costs		(3,792)	(3,400)	(6,720)	(7,589)	(14,169)
Onerous contracts		-	-	-	-	(1,160)
Depreciation and amortization	5	(6,432)	(6,769)	(12,946)	(12,314)	(26,647)
Multi-client amortization	6	(856)	(1,748)	(9,874)	(3,497)	(51,358)
Impairments		-	4,333	-	1,351	(4,878)
Total Operating expenses		**(56,155)**	**(45,371)**	**(128,603)**	**(70,805)**	**(244,240)**
Operating profit/(loss)		**8,690**	**(761)**	**11,450**	**4,452**	**(15,338)**
Finance costs	7	(8,289)	(7,978)	(16,617)	(17,777)	(33,478)
Finance income		234	618	481	921	1,842
Changes in fair value of financial instruments		-	-	-	479	479
Gain on financial restructuring		-	-	-	6,398	14,517
		(8,055)	**(7,360)**	**(16,136)**	**(9,978)**	**(16,641)**
Profit/(loss) before tax		**635**	**(8,120)**	**(4,685)**	**(5,527)**	**(31,979)**
Income tax expense		-	-	(13)	191	191
Net profit/(loss) and total comprehensive income/(loss)		**635**	**(8,120)**	**(4,698)**	**(5,336)**	**(31,788)**
Earnings per share attributable to the equity holders during the period *(In USD)*						
- Basic		0.001	(0.016)	(0.009)	(0.014)	(0.071)
- Diluted		0.001	(0.016)	(0.009)	(0.014)	(0.071)

Interim consolidated statement of financial position

(In thousands of USD)	Notes	30-Jun-19	30-Jun-18	31-Dec-18
Assets				
Non-current Assets				
Property, plant and equipment	8	363,419	386,165	369,629
Multi-client project library	6	2,287	26,787	12,160
Right-of-use assets	9	2,056	-	-
Total Non-current Assets		**367,761**	**412,952**	**381,789**
Current Assets				
Multi-client project library		-	32,333	-
Asset held for sale		-	6,500	-
Receivable from customers		52,057	26,210	39,583
Other current assets		26,806	14,947	13,132
Restricted cash		1,183	107	1,153
Cash and bank		22,594	34,628	30,005
Total Current Assets		**102,641**	**114,725**	**83,873**
Total Assets		**470,402**	**527,677**	**465,662**
Equity and Liabilities				
Equity				
Issued share capital		51,379	51,379	51,379
Share premium		635,906	635,906	635,906
Other reserves		26,008	25,659	25,961
Retained earnings/(loss)		(639,653)	(608,503)	(634,955)
Total Equity		**73,640**	**104,442**	**78,291**
Non-current Liabilities				
Interest bearing debt	10	326,651	333,432	325,500
Lease liabilities	9	1,010	-	-
Total Non-current Liabilities		**327,661**	**333,432**	**325,500**
Current Liabilities				
Interest bearing	10	10,600	8,600	10,600
Lease liabilities	9	940	-	-
Provisions		117	-	1,160
Accounts payable		31,443	17,676	21,417
Other accruals and payables		26,000	63,527	28,694
Total Current Liabilities		**69,101**	**89,803**	**61,871**
Total Equity and Liabilities		**470,402**	**527,677**	**465,662**

Interim consolidated statement of cash flows

(In thousands of USD)	Notes	Quarter ended 30-Jun-19	Quarter ended 30-Jun-18	Six months ended 30-Jun-19	Six months ended 30-Jun-18	Year ended 31-Dec-18
Cash flows from operating activities						
Profit/(loss) for the period		635	(8,121)	(4,698)	(5,336)	(31,788)
Adjustment for:						
Depreciation and amortization	5	6,432	6,769	12,946	12,314	26,647
Multi-client amortization	6	856	1,748	9,874	3,497	51,358
Impairments		-	(4,333)	-	(1,351)	4,878
Changes in fair value of financial instruments		-	-	-	(479)	(479)
Employee share option expenses		(81)	156	47.33	288	589
Interest expense	7	8,188	7,477	16,363	16,482	31,660
Interest income		(102)	(159)	(224)	(206)	(397)
Gain on financial restructuring		-	-	-	(6,398)	(14,517)
Gain on termination of vessel operating lease		-	-	-	(13,907)	(13,907)
Effect of currency (gain)/loss		68	(118)	100	84	281
Net movements in provisions	4	-	(2,213)	(1,043)	(5,489)	(4,329)
Net working capital movements		(11,074)	(7,437)	(22,616)	(99)	(38,671)
Net cash flows from operating activities		**4,923**	**(6,230)**	**10,748**	**(600)**	**11,327**
Cash flows from investing activities						
Payments for property, plant and equipment		(1,802)	(1,500)	(2,203)	(77,563)	(82,184)
Payments for multi-client library		-	(4,139)	-	(15,818)	(18,667)
Proceeds from sale of multi-client library		-	-	-	-	6,500
Net cash flows used in investing activities		**(1,802)**	**(5,639)**	**(2,203)**	**(93,381)**	**(94,351)**
Cash flows from financing activities						
Proceeds from the issue of ordinary shares		-	5,142	-	43,021	43,021
Transaction costs on issue of shares		-	(204)	-	(1,719)	(1,719)
Net receipt from bank loans		-	-	-	82,672	82,672
Repayment of interest bearing debt		(4,150)	(1,550)	(6,300)	(10,347)	(15,475)
Lease liabilities paid	9	(189)	-	(372)	-	-
Interest paid		(3,836)	(3,004)	(8,946)	(8,068)	(16,785)
Financial restructuring fees paid		-	-	-	(3,856)	(3,856)
Other finance costs paid		(196)	(191)	(450)	(454)	(1,149)
Decrease/(Increase) in restricted cash		84	53	(30)	7,711	6,664
Security deposit related to currency swaps		-	-	-	1,370	1,370
Paid towards liability under currency swaps		-	-	-	(7,672)	(7,672)
Interest received		102	159	224	206	397
Net cash flows used in financing activities		**(8,185)**	**406**	**(15,874)**	**102,864**	**87,469**
Effect of foreign currency revaluation on cash		(55)	58	(82)	(101)	(286)
Net increase in cash and cash equivalents		**(5,119)**	**(11,405)**	**(7,410)**	**8,782**	**4,159**
Cash and cash equivalents at the beginning of the period		27,713	46,033	30,005	25,846	25,846
Cash and cash equivalents at the end of the period		**22,594**	**34,628**	**22,594**	**34,628**	**30,005**

Interim consolidated statement of changes in equity

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 six months ended 30 June 2018

(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 31 December 2017	153,438,539	15,344	614,192	24,411	(609,228)	44,719
Other movements*		-	-	-	6,061	6,061
Balance as at 1 January 2018	**153,438,539**	**15,344**	**614,192**	**24,411**	**(603,167)**	**50,780**
Total comprehensive income/(loss) for the period		-	-	-	(5,336)	(5,336)
Employee stock options		-	-	288	-	288
Warrants issued		-	-	960	-	960
Issue of share capital						
01 March 2018 at NOK 1.30 per share	230,769,231	23,077	14,802	-	-	37,879
13 March 2018 at NOK 1.30 per share (bond conversions)	98,809,712	9,881	6,566	-	-	16,447
12 April 2018 at NOK 1.30 per share ("Repair issue")	30,769,231	3,077	2,065			5,142
Transaction costs on issue of shares		-	(1,719)	-	-	(1,719)
Balance as at 30 June 2018	**513,786,713**	**51,379**	**635,906**	**25,659**	**(608,503)**	**104,442**

*Other movements represent the effect of adopting IFRS-15 using modified retrospective approach effective 1 January 2018.

For the year ended 31 December 2018

(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 31 December 2017	153,438,539	15,344	614,192	24,411	(609,228)	44,719
Other movements*		-	-	-	6,061	6,061
Balance as at 1 January 2018	**153,438,539**	**15,344**	**614,192**	**24,411**	**(603,167)**	**50,780**
Total comprehensive income/(loss) for the period		-	-	-	(31,788)	(31,788)
Employee stock options		-	-	589	-	589
Warrants issued		-	-	960	-	960
Issue of share capital						
01 March 2018 at NOK 1.30 per share	230,769,231	23,077	14,802	-	-	37,879
13 March 2018 at NOK 1.30 per share (bond conversions)	98,809,712	9,881	6,566	-	-	16,447
12 April 2018 at NOK 1.30 per share ("Repair issue")	30,769,231	3,077	2,065			5,142
Transaction costs on issue of shares		-	(1,719)	-	-	(1,719)
Balance as at 31 December 2018	**513,786,713**	**51,379**	**635,906**	**25,961**	**(634,955)**	**78,291**

*Other movements represent the effect of adopting IFRS-15 using modified retrospective approach effective 1 January 2018.

Notes to the interim consolidated financial statements

1 General information

The interim consolidated financial statements of Polarcus Limited and its subsidiaries (together the "Company" or "Polarcus") for the quarter and six months ended 30 June 2019 were authorized for issue in accordance with a resolution of the Board of Directors passed on 23 July 2019.

Polarcus is an innovative marine geophysical company with a pioneering environmental agenda, delivering high-end towed streamer data acquisition and imaging services from Pole to Pole.

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 has its main administration office in the Dubai Multi Commodities Centre, United Arab Emirates which is the domicile of the Company.

The Company currently owns a fleet of seven high end 3D vessels. Six vessels are in operation, being *Polarcus Naila*, *Polarcus Asima*, *Polarcus Alima*, *Polarcus Adira*, *Vyacheslav Tikhonov and Ivan Gubkin*. *Polarcus Nadia*, another vessel in the Company's fleet has been stacked since 2015.

1.1 Going concern

These interim consolidated financial statements for the quarter and six months ended 30 June 2019 are prepared using the going concern assumption.

The Company's financial projections used in its going concern evaluation are based on certain assumptions about the future, including those related to contract pricing and vessel utilization, expected multi-client late sales from existing multi-client assets, expected future CAPEX investment and the availability of funding for such investments. The Company is dependent upon securing sufficient backlog in the future. Based on these assumptions, the Company expects to have sufficient liquidity to operate for at least 12 months after the balance sheet date.

Management and the Board of Directors closely monitor the going concern assumptions, cash flow forecast and compliance with financial covenants. Management and the Board of Directors confirm that the financial statements have been prepared under the going concern assumption and conclude that this is appropriate.

The Company's fleet is 100% booked for Q3 2019 and 60% for the 12 months period from end of Q2 2019 providing the opportunity to increase earnings further. Pricing levels of recent awards reflect an improvement in the global marine acquisition market. The Company's backlog at 30 June 2019 is estimated at USD 200 million.

2 Basis of presentation

These interim consolidated financial statements for the quarter and six months ended 30 June 2019 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 2018 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 2018 unless otherwise stated below. Refer to Note 2 *Summary of significant accounting policies* in the Consolidated Financial Statements in the 2018 Annual Report for information on the Company's accounting policies.

2.1 New accounting standards

2.1.1 IFRS 16 *Leases*

The Group adopted IFRS 16 *Leases* using the modified retrospective method with the date of initial application of 1 January 2019. The prior year figures have not been adjusted.

IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the lessee's Statement of Financial Position, unless the term is 12 months or less or the lease is for a low-value asset. For each lease, the lessee recognizes a liability for lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life (usually the lease period).

The Group elected to use the transition practical expedient allowing the new standard to be applied only to contracts that were previously identified as leases at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value.

On 1 January 2019 the Group recognized a Right-of-use asset of USD 2.5 million and corresponding lease liability of USD 2.3 million. The difference between the Right-of-use asset and the lease liability represents the prepaid lease amounts. These amounts represent the lease commitments for the satellite services onboard the Company's vessels and the lease arrangements for its two different office premises. The future payments under each lease arrangement have been discounted using the incremental borrowing rate applicable to the leased assets in order to calculate the lease liability recognized on the date of adoption.

Also refer to Note 9 *Right-of-use assets and lease liabilities*.

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 are excluded from the Segment information in order to compare the performance with the prior periods. The segment information for comparative periods are adjusted to eliminate non-recurring items.

	Quarter ended 30-Jun-19			Quarter ended 30-Jun-18		
(In thousands of USD)	**Segment**	**Adjustments[1]**	**As reported**	**Segment**	**Adjustments[2]**	**As reported**
Revenues						
Contract revenue	57,529	-	57,529	44,403	-	44,403
Multi-client prefunding	-	-	-	3,772	(3,772)	-
Multi-client late sales	3,603	-	3,603	7	-	7
Other income (Insurance claims)	3,712	-	3,712	200	-	200
Total Revenues	**64,845**	**-**	**64,845**	**48,382**	**(3,772)**	**44,610**
Operating costs	(48,867)	-	(48,867)	(41,186)	-	(41,186)
Onerous contracts	-	-	-	-	-	-
EBITDA	**15,978**	**-**	**15,978**	**7,196**	**(3,772)**	**3,424**
Depreciation and amortization	(6,432)	-	(6,432)	(6,769)	-	(6,769)
Multi-client amortization	(856)	-	(856)	(6,222)	4,474	(1,748)
Impairments	-	-	-	-	4,333	4,333
Operating profit/(loss) (EBIT)	**8,690**	**-**	**8,690**	**(5,795)**	**5,035**	**(760)**
Net financial expense	(8,055)	-	(8,055)	(7,360)	-	(7,360)
Profit/(loss) before tax	**635**	**-**	**635**	**(13,156)**	**5,035**	**(8,121)**

	Six months ended 30-Jun-19			Six months ended 30-Jun-18		
(In thousands of USD)	**Segment**	**Adjustments[1]**	**As reported**	**Segment**	**Adjustments[2]**	**As reported**
Revenues						
Contract revenue	124,056	-	124,056	74,361	-	74,361
Multi-client prefunding	55	8,106	8,161	13,307	(13,307)	-
Multi-client late sales	3,603	-	3,603	98	-	98
Other income (Insurance claims)	4,233	-	4,233	798	-	798
Total Revenues	**131,948**	**8,106**	**140,054**	**88,564**	**(13,307)**	**75,257**
Operating costs	(105,784)	-	(105,784)	(69,121)	12,776	(56,345)
Onerous contracts	-	-	-	-	-	-
EBITDA	**26,164**	**8,106**	**34,270**	**19,443**	**(531)**	**18,912**
Depreciation and amortization	(12,946)	-	(12,946)	(12,314)	-	(12,314)
Multi-client amortization	(1,713)	(8,161)	(9,874)	(20,140)	16,643	(3,497)
Impairments	-	-	-	-	1,351	1,351
Operating profit/(loss) (EBIT)	**11,506**	**(55)**	**11,450**	**(13,011)**	**17,463**	**4,452**
Net financial expense	(16,136)	-	(16,136)	(16,377)	6,398	(9,978)
Profit/(loss) before tax	**(4,630)**	**(55)**	**(4,685)**	**(29,388)**	**23,861**	**(5,527)**

(In thousands of USD)	Year ended 31-Dec-18 Segment	Adjustments[2]	As reported
Revenues			
Contract revenue	182,746	-	182,746
Multi-client prefunding	14,080	26,743	40,823
Multi-client late sales	4,535	-	4,535
Other income (Insurance claims)	798	-	798
Total Revenues	**202,159**	**26,743**	**228,901**
Operating costs	(173,049)	12,852	(160,196)
Provision for onerous contracts	-	(1,160)	(1,160)
EBITDA	**29,110**	**38,434**	**67,545**
Depreciation and amortization	(26,647)	-	(26,647)
Multi-client amortization	(22,268)	(29,090)	(51,358)
Impairments	-	(4,878)	(4,878)
Operating profit/(loss) (EBIT)	**(19,805)**	**4,467**	**(15,338)**
Net financial expense	(31,157)	14,517	(16,641)
Profit/(loss) before tax	**(50,963)**	**18,984**	**(31,979)**

[1] *= adjustments consist of IFRS 15 related adjustments*

[2] *= adjustments consist of IFRS 15 related adjustments and adjustments of non-recurring costs (impairments, cost of onerous contract provisions and restructuring costs)*

4 Cost of sales

(In thousands of USD)	Quarter ended 30-Jun-19	Quarter ended 30-Jun-18	Six months ended 30-Jun-19	Six months ended 30-Jun-18	Year ended 31-Dec-18
Cost of sales	56,879	41,095	106,449	78,798	165,154
Reimbursable cost	2,582	1,821	8,044	3,461	13,946
Gross cost of sales	**59,461**	**42,916**	**114,493**	**82,260**	**179,100**
Net deferred transit adjustment	(14,386)	-	(14,386)	-	-
Onerous contract provision unwinding	-	(2,213)	(1,043)	(5,489)	(5,489)
Capitalized to multi-client projects	-	(2,918)	-	(14,108)	(14,108)
Gain on termination of vessel operating lease	-	-	-	(13,907)	(13,907)
Bad debt provision	-	-	-	-	430
Net cost of sales	**45,075**	**37,786**	**99,063**	**48,756**	**146,027**

5 Depreciation and amortization

(In thousands of USD)	Quarter ended 30-Jun-19	Quarter ended 30-Jun-18	Six months ended 30-Jun-19	Six months ended 30-Jun-18	Year ended 31-Dec-18
Depreciation of seismic vessels and equipment	6,148	6,947	12,382	13,135	27,369
Depreciation of office equipment	42	17	85	35	134
Amortization of Right-of-use assets	242	-	479	-	-
Depreciation capitalized to multi-client library	-	(195)	-	(856)	(856)
Total	**6,432**	**6,769**	**12,946**	**12,314**	**26,647**

6 Multi-client project library

(In thousands of USD)	Quarter ended 30-Jun-19	Quarter ended 30-Jun-18	Six months ended 30-Jun-19	Six months ended 30-Jun-18	Year ended 31-Dec-18
Balance at the beginning of the period	3,143	59,675	12,160	51,317	51,317
Investments during the period	-	3,165	-	15,594	16,495
Capitalized depreciation	-	195	-	855	856
Sale of multi-client library	-	-	-	-	(6,500)
Amortization	(856)	(1,748)	(9,874)	(3,497)	(51,358)
Impairments	-	4,333	-	1,351	1,351
Balance at the period end	**2,287**	**65,619**	**2,287**	**65,619**	**12,160**

6.1 Amortization of multi-client library

The amortization of multi-client library during the quarter ended 30 June 2019 represents the straight line amortization of two libraries.

During the six months ended 30 June 2019 the Company completed a multi-client project in Australia and delivered the processed data to the respective clients. In the same period, in accordance with IFRS 15, the Company recognised prefunding revenue of USD 8.2 million that the Company had previously collected from customers for this project. he Company amortised 100% of the carrying value of this project (USD 8.2 million) in the same period. The remaining amortisation of USD 1.7 million during the six months ended 30 June 2019 represents the straight-line amortisation recognised on remaining two multi-client projects.

7 Finance costs

	Quarter ended		Six months ended		Year ended
(In thousands of USD)	**30-Jun-19**	**30-Jun-18**	**30-Jun-19**	**30-Jun-18**	**31-Dec-18**
Interest expenses on bond loans	3,295	2,940	6,559	6,318	11,639
Interest expenses on other interest bearing debt	4,690	4,346	9,338	9,711	18,873
Interest expense on leases	7	-	15	-	-
Net interest expenses	**7,993**	**7,286**	**15,912**	**16,028**	**30,512**
Other finance costs	196	191	450	454	1,149
Currency exchange losses	101	501	254	1,295	1,818
Total	**8,289**	**7,978**	**16,617**	**17,777**	**33,478**

8 Property, plant and equipment

(In thousands of USD)	**Seismic vessels and equipment**	**Office equipment**	**Total**
Costs			
Balance as at 1 January 2019	1,057,995	3,577	1,061,572
Additional capital expenditures	6,257	-	6,257
Balance as at 30 June 2019	1,064,252	3,577	1,067,829
Depreciation and impairments			
Balance as at 1 January 2019	688,835	3,108	691,943
Depreciation for the period	12,382	85	12,467
Balance as at 30 June 2019	701,217	3,193	704,410
Carrying amounts			
As at 1 January 2019	369,160	469	369,629
As at 30 June 2019	**363,035**	**384**	**363,419**
Pledged assets as at 30 June 2019	358,727	-	358,727

9 Right-of-use assets and lease liabilities

The Group adopted IFRS 16 *Leases* using the modified retrospective method with the date of initial application of 1 January 2019. The Right-of-use asset recognized on the date of initial application includes the amount of lease liabilities recognized, initial direct costs incurred and prepaid lease amounts. The lease liabilities are measured at the present value of lease payments to be made over the lease term. The prior year figures have not been adjusted.

9.1 Right-of-use assets

	Quarter ended		Six months ended		Year ended
(In thousands of USD)	**30-Jun-19**	**30-Jun-18**	**30-Jun-19**	**30-Jun-18**	**31-Dec-18**
Initial measurement					
Net present value of lease liabilities	2,297	-	2,323	-	-
Initial direct costs	-	-	27	-	-
Prepaid leases	-	-	186	-	-
Balance at 1 January	**2,297**	-	**2,535**	-	-
Depreciation	(242)	-	(479)	-	-
Balance at the period end	**2,056**	-	**2,056**	-	-

9.2 Lease liabilities

(In thousands of USD)	Quarter ended 30-Jun-19	Quarter ended 30-Jun-18	Six months ended 30-Jun-19	Six months ended 30-Jun-18	Year ended 31-Dec-18
Balance at the beginning of the period	**2,139**	**-**	**2,323**		
Lease payments during the period	(189)	-	(372)	-	-
Interest expense on leases	7	-	15	-	-
Interest on leases paid	(7)	-	(15)	-	-
Balance at the period end	**1,950**	**-**	**1,950**	**-**	**-**
Of which:					
Current liability portion	940	-	940	-	-
Non-current liability	1,010	-	1,010	-	-

10 Interest bearing debt

(In thousands of USD)	Nominal outstanding value 30-Jun-19	30-Jun-19	30-Jun-18	31-Dec-18
Bond loans				
125M USD convertible bonds - Tranche A	64,430	20,767	23,587	20,047
125M USD convertible bonds - Tranche B	3,555	1,055	394	730
95M USD unsecured bonds	9,827	3,761	2,064	2,916
350M NOK unsecured bonds	6,199	2,441	1,308	1,877
Total bond loans	**84,011**	**28,025**	**27,353**	**25,570**
Other interest bearing debt				
Fleet bank facility - Tranche 1	41,724	40,092	40,693	39,290
Fleet bank facility - Tranche 2	35,773	36,141	34,588	36,085
Fleet bank facility - Tranche 3	77,865	76,342	78,580	78,003
Fleet bank facility - Tranche 4	86,045	79,301	82,428	78,282
New Fleet Facility for N-Class vessels	74,945	71,686	70,732	71,210
DNB loan facility	5,672	5,663	7,658	7,660
Total other interest bearing debt	**322,024**	**309,226**	**314,679**	**310,529**
Total Interest bearing debt	**406,035**	**337,251**	**342,032**	**336,100**
Of which:				
Current liability portion		10,600	8,600	10,600
Non-current liability		326,651	333,432	325,500

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 2019 the Company has paid USD 0.1 million and 0.2 million respectively to Zickerman Group DMCC for consultancy services (USD 0.1 million and USD 0.2 million during Q2 and H1 2018).

Alternative performance measures

In order to measure performance on an historic basis, the Company has primarily made use of the non-IFRS measures described below. These are Alternative Performance Measures ("APMs") which are provided to enable a deeper understanding of the Company's financial performance. The Company uses APMs to provide supplemental information to the IFRS financial measures.

Adjusted EBITDA	Earnings before interest, tax, depreciation, amortization and impairments, using the adjusted revenues (as described below) as opposed to IFRS revenues. The Company uses adjusted revenue to allow consistency between 2018 and prior accounting periods, which increases the comparability of the financial performance across periods.
Adjusted revenues	The revenues in the period based but excluding the impact of IFRS 15 in 2018, so accounted for based on the revenue recognition principles prevailing in 2017 before the mandatory adoption of IFRS 15. The Company uses adjusted revenue to allow consistency between 2018 and prior accounting periods, which increases the comparability of the financial performance across periods.
Backlog	The aggregate estimated value of future projects for which the Company has a signed contract or letter of award with a client. The Company uses backlog as it gives the amount of the committed activity in future periods, thus providing an indication of the Company'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 Company uses CAPEX to indicate the level of its investments in enhancing its capital assets.
EBIT	Earnings before interest and tax. The Company 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)	Earnings before interest and tax, excluding non-recurring items (see definition below)
EBITDA	Earnings before interest, tax, depreciation, amortization and impairments. The Company 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.
EBITDA (before non-recurring items)	Earnings before interest, tax, depreciation, amortization and impairments, excluding non-recurring items
IFRS-15 adjustments	The effect of adopting IFRS 15 effective 1 January 2018 to the Company's consolidated financial statements. The Company uses IFRS-15 adjustments to explain how some of the Company'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 Company'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 Company uses net interest bearing debt as it provides an indication of the Company's debt position by indicating the Company'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 and restructuring costs. The Company believes that non-recurring items should be identified as they are typically non-cash items that are not expected to occur infrequently and are often a result of technical accounting judgments as opposed to operational performance.

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 Company's financial risk is reduced on multi-client investments.
Total cash	The total of restricted and unrestricted cash held by the Company at the reporting date. The Company uses total cash as it provides an indication of the Company's complete cash position.

The non-IFRS financial measures presented herein are not recognised measurements of financial performance under IFRS, but are used by the Company 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 Company believes that the non-IFRS measures presented herein are commonly used by investors in comparing performance between companies.

Accordingly, the Company 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) show the EBIT and EBITDA of the Company after adjustments for 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 Company 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 2019 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.

Madrid, 23 July 2019
The Board of Directors and CEO of Polarcus Limited