Third Quarter Report

2020

Polarcus Limited

THIRD QUARTER 2020

Delivering tight cost control 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.

HEADLINES Q3 2020

- Segment revenues of USD 25.2 million, compared to USD 22.8 million in Q2 2020
- Segment EBITDA of USD 3.4 million, compared to negative USD 2.5 million in Q2 2020
- Cash from operations of negative USD 2.6 million, compared to USD 12.7 million in Q2 2020
- Total cash balance of USD 32.4 million at quarter-end, compared to USD 44.8 million at end of Q2 2020
- Vessel utilization of 43%, compared to 50% in Q2 2020
- Backlog of approximately USD 139 million, compared to USD 141 million at end of Q2 2020
- Bareboat charter for V. Tikhonov extended for three years, while Ivan Gubkin was redelivered

Third quarter Segment revenues of USD 25.2 million improved 10% sequentially, but decreased significantly compared to the same period last year as activity in the marine seismic market remained subdued due to the global slow-down on the back of the COVID-19 pandemic. Vessel utilization during the quarter dropped to 43% compared to 50% in Q2 2020 as a result of V. Tikhonov being on standby for two months in Q3 2020. Core fleet utilization in the quarter remained flat sequentially, while realized day rates on contracts increased 26%, resulting in improved revenue compared to Q2 2020.

During the quarter, the V. Tikhonov charter was extended into Q4 2023 which largely compensates for the loss of future bareboat charter revenue from Ivan Gubkin (now Polarcus Amani) that was redelivered earlier than scheduled.

Operating cost continued to be tightly managed. With increased flexibility in the cost base introduced during the last six months, gross cost of sales dropped to USD 22.6 million compared to USD 23.5 million in the previous quarter and USD 63.0 million in Q3 2019. General and administrative costs reduced to USD 2.3 million compared to USD 2.8 million in the previous quarter and USD 3.1 million in Q3 2019. The cost management measures implemented since Q1 2020 resulted in a Segment EBITDA that improved sequentially to USD 3.4 million for the quarter.

Cash from operations in the quarter was negative USD 2.6 million impacted by negative working capital movements of USD 5.8 million. Total cash at quarter-end was USD 32.4 million compared to USD 44.8 million at the end of the previous quarter.

Polarcus continues to secure new projects despite the challenging market conditions, with four new awards announced since the end of Q2 2020. Backlog at 30 September 2020, together with the value of awards announced after the quarter-end, is estimated at USD 139 million compared to USD 141 million at the end of Q2 2020. The Company's fleet is 50% booked to the end of H1 2021.

OUTLOOK

Continuing restrictions on economic activity worldwide to mitigate the effects of COVID-19 have negatively impacted the Company's earnings over the past six months. This challenging market environment has led to a more uncertain outlook with subdued demand for seismic services, lower day-rates and extended payment terms. These market conditions continued through Q3 2020 and a recovery in tender activity, whilst underway, has been slow.

Sentiment related to oil price and COVID-19 restrictions will be an important factor for medium-term demand levels as E&P companies work with more compressed budget cycles. A negative or neutral sentiment enduring through Q4 2020 will likely mean that visibility of demand for the Company's services for at least H1 2021 will remain limited. However, recent discussions with clients do indicate that E&P investment is currently expected to increase during 2021.

The reshaping of the marine seismic industry that has occurred, resulting in fewer acquisition companies, has led to an improved industry structure. Continued supply-side discipline has been observed since the first impact of the COVID-19 pandemic. Four vessels have been removed from the global vessel count since the end of 2019 resulting in 19 global active vessels at the end of Q3 2020. With only 12 of these 19 vessels working on projects going into Q4 2020, further supply-side discipline will be required in order to mitigate reduced demand observed in 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 highly efficient, modern 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

(In millions of USD)	Quarter ended 30-Sep-20	30-Jun-20	30-Sep-19	Nine months ended 30-Sep-20	30-Sep-19	Year ended 31-Dec-19
Segment reporting						
Revenues	25.2	22.8	103.4	114.2	235.4	290.6
EBITDA	3.4	(2.5)	29.6	23.1	55.7	63.4
EBIT	(3.8)	(9.7)	22.1	(5.0)	33.6	28.0
Cash from operations before changes in working capital	3.2	(4.2)	29.7	21.6	54.9	61.5
Net working capital movement	(5.8)	16.9	(1.4)	(7.0)	(15.9)	(0.6)
Net cash flows from operating activities	(2.6)	12.7	28.3	14.6	39.0	60.9
As per IFRS						
Revenues	24.3	22.1	103.4	101.7	243.5	288.6
EBITDA	2.6	(5.1)	29.6	8.6	63.8	61.4
EBITDA (before non-recurring items)	2.6	(3.1)	29.6	10.6	63.8	61.4
EBIT	(4.0)	(11.9)	22.1	(11.0)	33.6	24.3
EBIT (before non-recurring items)	(4.0)	(9.9)	22.1	(9.0)	33.6	24.3
Net profit/(loss) for the period	(13.5)	(20.7)	13.7	(38.5)	9.0	(10.0)
Basic earnings/(loss) per share (USD)	(0.026)	(0.040)	0.027	(0.075)	0.017	(0.020)
Total assets (period end)	434.7	456.0	480.8	434.7	480.8	458.7
Total liabilities (period end)	404.5	412.2	393.3	404.5	393.3	390.1
Total Equity (period end)	30.2	43.8	87.4	30.2	87.4	68.6
Equity Ratio	7%	10%	18%	7%	18%	15%
PP&E cash investment	1.5	4.0	8.6	8.8	10.8	16.7
Multi-client projects cash investment	0.7	0.4	-	8.6	-	6.1
Total cash (period end)	32.4	44.8	35.4	32.4	35.4	36.5
Net interest bearing debt (period end)	332.9	317.9	304.0	332.9	304.0	301.5

Financial Results (in accordance with IFRS)

Revenues

(In millions of USD)	Quarter ended 30-Sep-20	30-Sep-19	Nine months ended 30-Sep-20	30-Sep-19	Year ended 31-Dec-19
Contract revenue					
- Proprietary contracts	18.9	95.1	81.0	196.2	228.7
- Reimbursable	1.0	1.4	3.5	10.8	12.9
- Bareboat charter	4.4	6.8	16.7	20.3	27.2
	24.3	103.3	101.2	227.3	268.8
Multi-client revenue					
- Prefunding	-	-	-	8.2	8.2
- Late sales	-	-	0.1	3.6	5.9
	-	-	0.1	11.8	14.1
Other income	-	0.1	0.4	4.4	5.7
Total	**24.3**	**103.4**	**101.7**	**243.5**	**288.6**

Revenues in third quarter decreased by 76% to USD 24.3 million (Q3 2019: USD 103.4 million), driven by the reduction in proprietary contract revenue and revenue from bareboat charter hire.

Proprietary contract revenue decreased to USD 18.9 million (Q3 2019: USD 95.1 million) due to the combined reduction in utilization and pricing achieved for the Company's core fleet during the quarter.

Reimbursable revenue in the quarter was USD 1.0 million (Q3 2019: USD 1.4 million). Bareboat charter revenue decreased to USD 4.4 million (Q3 2019: USD 6.8 million) as a result of V. Tikhonov not receiving charter hire for the first two months in the quarter. There was no multi-client revenue recognized during the quarter (Q3 2019: nil) and no vessel capacity was allocated to multi-client projects (Q3 2019: no vessel allocation to multi-client projects).

Operating Expenses

	Quarter ended		Nine months ended		Year ended
(In millions of USD)	**30-Sep-20**	**30-Sep-19**	**30-Sep-20**	**30-Sep-19**	**31-Dec-19**
Operating costs	22.0	61.8	88.7	165.4	214.7
Reimbursable cost	0.6	1.2	2.6	9.3	11.1
Gross cost of sales	**22.6**	**63.0**	**91.3**	**174.6**	**225.8**
Net deferred transit adjustment	(3.2)	7.7	(1.1)	(3.8)	(4.8)
Capitalized to multi-client projects	-	-	(7.0)	-	(5.9)
Restructuring costs	-	-	1.9	-	-
Net movement in onerous contract provision	-	-	-	(1.0)	(1.2)
Cost of sales	**19.4**	**70.7**	**85.1**	**169.8**	**213.9**

Gross cost of sales in the quarter dropped by 64% to USD 22.6 million (Q3 2019: USD 63.0 million) driven by lower vessel utilization and the benefits earned from cost saving measures implemented in previous quarters.

Net transit costs deferred from the quarter was USD 3.2 million (Q3 2019: USD 7.7 million transit costs expensed). No costs were capitalized to multi-client projects in the quarter (Q3 2019: nil). Cost of sales in the quarter decreased to USD 19.4 million (Q3 2019: USD 70.7 million).

General and administrative costs decreased by 24% to USD 2.3 million during the quarter (Q3 2019: USD 3.1 million).

Depreciation and amortization

Depreciation and amortization during the quarter was USD 6.6 million (Q3 2019: USD 6.7 million). There was no amortization of multi-client projects in the quarter (Q3 2019: USD 0.7 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 on 30 June 2020 but higher than their 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. No PP&E impairment has been taken during the period ended 30 September 2020 but depending on market developments, impairments may arise in future periods.

Net profit and earnings per share

The Company recorded a net loss of USD 13.5 million in Q3 2020 (Q3 2019: net profit of USD 13.7 million). During the quarter the Company incurred income tax expenses of USD 0.2 million (Q3 2019: nil). Basic and diluted earnings per share for the quarter was a loss of USD 0.03 per share (Q3 2019: profit of USD 0.03 per share).

Capital expenditure

	Quarter ended		Nine months ended		Year ended
(In millions of USD)	**30-Sep-20**	**30-Sep-19**	**30-Sep-20**	**30-Sep-19**	**31-Dec-19**
Seismic and other equipment	0.7	5.6	6.9	11.9	18.9
Other	0.2	-	0.8	-	0.3
Total	**0.9**	**5.6**	**7.7**	**11.9**	**19.2**

Capital expenditure during the quarter was USD 0.9 million (Q3 2019: USD 5.6 million), mainly related to additional investment in in-sea equipment.

Cash flow and liquidity

Net cash flow from operating activities in Q3 2020 was negative USD 2.6 million (Q3 2019: USD 28.3 million positive). Net cash flow used in investing activities was USD 2.4 million (Q3 2019: USD 8.2 million). During the quarter, the Company invested USD 1.5 million in property, plant and equipment (Q3 2019: USD 8.6 million) and USD 0.7 million in multi-client projects (Q3 2019: nil).

Net cash flow used in financing activities during the quarter was USD 2.0 million (Q3 2019: USD 8.4 million). Interest paid during the quarter was USD 5.0 million (Q3 2019: USD 5.4 million). Repayment of interest-bearing debt in the quarter was USD 1.8 million (Q3 2019: USD 2.6 million). Other financial expenses amounted to USD 0.6 million (Q3 2019: USD 0.5 million). USD 5.3 million of the total debt service during the quarter was funded by the cash released from the Company's restricted bank accounts.

Total cash held at the quarter end was USD 32.4 million, including restricted cash of USD 5.1 million (total cash of USD 35.4 million held at 30 September 2019, including USD 1.2 million restricted cash).

Vessel utilization

	Quarter ended		Nine months ended		Year ended
	30-Sep-20	**30-Sep-19**	**30-Sep-20**	**30-Sep-19**	**31-Dec-19**
Utilization	43%	83%	61%	83%	79%
By category:					
Contract Seismic	43%	83%	58%	83%	77%
Multi-Client	-	-	3%	-	2%
Transit	15%	8%	7%	12%	13%
Yard stay	-	6%	-	3%	5%
Standby	42%	3%	32%	2%	3%

Polarcus Nadia is excluded from vessel utilization subsequent to stacking in April 2015 and Polarcus Amani is excluded from vessel utilization subsequent to stacking on 25 September 2020. V. Tikhonov is reported on Contract Seismic from 1 September 2020 as per announcement dated 11 September 2020.

Vessel utilisation for the quarter was 43% (Q3 2019: 83%) as a result of high standby time driven by a challenging market on the back of the COVID-19 pandemic.

Excluding the vessels on bareboat charters (and Polarcus Nadia), utilization for the Company's core fleet was 33% for the quarter (Q3 2019: 74%).

Interim consolidated statement of comprehensive income

(In thousands of USD)	Notes	Quarter ended **30-Sep-20**	 **30-Sep-19**	Nine months ended **30-Sep-20**	 **30-Sep-19**	Year ended **31-Dec-19**
Revenues						
Contract revenue	3	24,298	103,267	101,244	227,323	268,825
Multi-client revenue	3	-	19	87	11,784	14,054
Other income	3	-	117	400	4,351	5,712
Total Revenues		**24,298**	**103,403**	**101,731**	**243,458**	**288,591**
Operating expenses						
Cost of sales	4	(19,378)	(70,744)	(85,140)	(169,807)	(213,904)
General and administrative costs		(2,347)	(3,082)	(7,956)	(9,802)	(13,318)
Depreciation and amortization	5	(6,607)	(6,727)	(19,032)	(19,673)	(25,886)
Multi-client amortization	6	-	(715)	(645)	(10,589)	(11,233)
Total Operating expenses		**(28,332)**	**(81,268)**	**(112,773)**	**(209,871)**	**(264,341)**
Operating profit/(loss)		**(4,034)**	**22,135**	**(11,042)**	**33,587**	**24,250**
Finance costs	7	(9,478)	(8,695)	(27,219)	(25,311)	(34,217)
Finance income		171	230	1,259	709	1,013
		(9,307)	**(8,465)**	**(25,960)**	**(24,602)**	**(33,204)**
Profit/(loss) before tax		**(13,341)**	**13,670**	**(37,002)**	**8,985**	**(8,954)**
Income tax expense		(203)	-	(1,536)	(13)	(1,080)
Net profit/(loss) and total comprehensive income/(loss)		**(13,544)**	**13,670**	**(38,538)**	**8,972**	**(10,034)**
Earnings per share attributable to the equity holders during the period *(In USD)*						
- Basic		(0.026)	0.027	(0.075)	0.017	(0.020)
- Diluted		(0.026)	0.027	(0.075)	0.017	(0.020)

Interim consolidated statement of financial position

(In thousands of USD)	Notes	30-Sep-20	30-Sep-19	31-Dec-19
Assets				
Non-current Assets				
Property, plant and equipment	8	351,865	362,573	363,335
Multi-client project library	6	15,409	1,289	7,030
Right-of-use assets	9	3,110	1,814	1,572
Intangible assets		816	-	290
Total Non-current Assets		**371,200**	**365,676**	**372,227**
Current Assets				
Receivable from customers		15,902	64,859	32,078
Other current assets		15,157	14,893	17,926
Restricted cash		5,061	1,207	1,235
Cash and bank		27,355	34,147	35,234
Total Current Assets		**63,475**	**115,106**	**86,473**
Total Assets		**434,675**	**480,782**	**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		25,542	26,132	25,369
Retained earnings/(loss)		(682,635)	(625,983)	(644,097)
Total Equity		**30,192**	**87,434**	**68,557**
Non-current Liabilities				
Interest bearing debt	10	334,234	324,623	326,244
Lease liabilities	9	1,793	727	532
Total Non-current Liabilities		**336,027**	**325,350**	**326,776**
Current Liabilities				
Interest bearing debt	10	29,975	13,600	10,600
Lease liabilities	9	1,307	1,034	860
Provisions		-	117	-
Accounts payable		5,758	18,484	14,771
Other accruals and payables		31,416	34,763	37,136
Total Current Liabilities		**68,456**	**67,998**	**63,367**
Total Equity and Liabilities		**434,675**	**480,782**	**458,700**

Interim consolidated statement of cash flows

(In thousands of USD)	Notes	Quarter ended 30-Sep-20	Quarter ended 30-Sep-19	Nine months ended 30-Sep-20	Nine months ended 30-Sep-19	Year ended 31-Dec-19
Cash flows from operating activities						
Profit/(loss) for the period before income tax		(13,341)	13,670	(37,002)	8,985	(8,954)
Adjustment for:						
Depreciation and amortization	5	6,607	6,727	19,032	19,673	25,886
Multi-client amortization	6	-	715	645	10,589	11,233
Gain on sale of assets		-	(117)	-	(117)	(1,117)
Employee share based incentives		(66)	124	173	171	300
Interest expense	7	9,088	8,510	26,008	24,873	33,542
Interest income		(1)	(70)	(79)	(294)	(370)
Income tax paid		-	-	-	(13)	(30)
Effect of currency (gain)/loss		40	103	335	203	133
Net movements in provisions		-	-	-	(1,043)	(1,160)
Net working capital movements		(4,929)	(1,402)	5,488	(24,018)	1,440
Net cash flows from/(used in) operating activities		**(2,602)**	**28,260**	**14,600**	**39,009**	**60,903**
Cash flows from investing activities						
Payments for property, plant and equipment		(1,525)	(8,623)	(8,782)	(10,826)	(16,727)
Payments for multi-client library	6	(683)	-	(8,578)	-	(6,071)
Payments for intangible assets		(207)	-	(534)	-	(290)
Proceeds from sale of multi-client library		-	400	-	400	1,400
Net cash flows used in investing activities		**(2,415)**	**(8,223)**	**(17,894)**	**(10,426)**	**(21,688)**
Cash flows from financing activities						
Net receipt from bank loans	10	-	-	25,000	-	-
Repayment of interest bearing debt		(1,758)	(2,550)	(9,058)	(8,850)	(14,000)
Lease liabilities paid	9	(375)	(189)	(941)	(562)	(930)
Interest paid		(4,951)	(5,400)	(14,767)	(14,346)	(18,311)
Other finance costs paid		(275)	(310)	(525)	(761)	(970)
Decrease/(Increase) in restricted cash		5,346	(24)	(3,827)	(54)	(82)
Interest received		1	70	79	294	370
Net cash flows used in financing activities		**(2,012)**	**(8,404)**	**(4,039)**	**(24,279)**	**(33,923)**
Effect of foreign currency revaluation on cash		(52)	(80)	(546)	(162)	(63)
Net increase/(decrease) in cash and cash equivalents		**(7,081)**	**11,553**	**(7,879)**	**4,142**	**5,229**
Cash and cash equivalents at the beginning of the period		34,436	22,594	35,234	30,005	30,005
Cash and cash equivalents at the end of the period		**27,355**	**34,147**	**27,355**	**34,147**	**35,234**

Interim consolidated statement of changes in equity

For the nine months ended 30 September 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		-	-	-	(38,538)	(38,538)
Employee share based incentives		-	-	173	-	173
Balance as at 30 September 2020	**513,786,713**	**51,379**	**635,906**	**25,542**	**(682,635)**	**30,192**

For the nine months ended 30 September 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		-	-	-	8,972	8,972
Employee share based incentives		-	-	171	-	171
Balance as at 30 September 2019	**513,786,713**	**51,379**	**635,906**	**26,132**	**(625,983)**	**87,434**

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 nine months ended 30 September 2020 were authorized for issue in accordance with a resolution of the Board of Directors passed on 28 October 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 the 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 nine months ended 30 September 2020 are prepared using the Going Concern assumption. As described below, this assumption is subject to material uncertainty.

The rapid decline in the oil price in March 2020, subsequent spending reductions announced by E&P companies and the continuing global activity restrictions to mitigate the effects of COVID-19 have negatively impacted the Company's earnings over the past six months. This challenging market environment has led to a more uncertain outlook with subdued demand for seismic services, negative pressure on day-rates and extended payment terms. These market conditions continued through Q3 2020 and the recovery in tender activity, whilst underway, has been slow.

During March 2020, the Company announced enhanced business continuity measures and a substantial cost reduction plan to ensure continued efficient operations and to strengthen the financial resilience of the Company going forward. 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, in June 2020, the Company announced a comprehensive organizational reshape, reducing the size of the onshore and offshore organizations by approximately 20% while introducing flexibility into the cost base to manage the anticipated fluctuation in activity levels. The organizational reshape is estimated to realize an additional annualised reduction in the Company's operating costs of more than USD 7 million, further improving the financial resilience of the Company. A one-off associated cost of USD 2 million was recognised in Q2 2020.

In June 2020 the Company agreed certain amendments concerning repayment of the USD 25 million drawdown from its USD 40 million working capital facility ("WCF") and to the Minimum Working Capital covenant which was 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 provides increased financial flexibility in the near-term (refer to Note 10 Interest bearing debt).

In September 2020, Ivan Gubkin (now Polarcus Amani) was redelivered to the Group, ahead of scheduled redelivery in Q4 2022. This led to a loss of backlog that was largely offset by the 3-year extension to the charter for V. Tikhonov at a reduced rate. Polarcus Amani will be stacked in Norway until market conditions support reactivation.

In addition to the Minimum Working Capital covenant mentioned above, the Company is subject to a minimum liquidity reserve covenant of USD 10 million in its principal loan facilities. The headroom on these loan covenants has declined over the past six months because of the decline in revenue experienced as a result of the depressed market for the Company's services. Due to the sensitivity of future projected cash flows to negative operational events (such as project delays) and the ongoing low level of demand for seismic services, there is a material risk that the Company breaches its covenants within the next 12 months.

The Company'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, support from key stakeholders, and availability of funding. Based on these assumptions, the Company 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 the impact of both on the Company's Going Concern assumption, cash flow forecast and compliance with financial covenants. In order to address the risk of covenant breach and short-term liquidity issues, the Company may require a waiver or amendment of the covenants, and/or amendments concerning repayment of the USD 25 million draw down from the WCF which currently is due by 25 December 2020. The Company may also consider raising new financing through new equity or debt, sale of assets, a restructuring of existing debt or a combination of these alternatives.

If the Company does not address the risk of covenant breach and short-term liquidity issues, the Going Concern basis may not be valid. In such circumstances, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any future liabilities which may arise and to reclassify non-current assets and long-term liabilities as current.

Backlog at 30 September 2020 and value of awards announced after the quarter end is estimated at USD 139 million compared to USD 145 million at the same time last year. The Company's fleet is 50% booked to the end of H1 2021. The Company remains in compliance with all of its financial covenants.

2 Basis of presentation

These unaudited interim consolidated financial statements for the quarter and nine months ended 30 September 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 nine months ended 30 September 2020 amounts to USD 0.2 million and USD 1.3 million respectively (quarter and nine months ended 30 September 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-Sep-20			Quarter ended 30-Sep-19		
(In thousands of USD)	**Segment**	**Adjustments¹**	**As reported**	**Segment**	**Adjustments¹**	**As reported**
Revenues						
Contract revenue	24,298	-	24,298	103,267	-	103,267
Multi-client prefunding	856	(856)	-	-	-	-
Multi-client late sales	-	-	-	19	-	19
Other income	-	-	-	117	-	117
Total Revenues	**25,154**	**(856)**	**24,298**	**103,403**	**-**	**103,403**
Cost of sales	(19,378)	-	(19,378)	(70,744)	-	(70,744)
General and administrative costs	(2,347)	-	(2,347)	(3,082)	-	(3,082)
EBITDA	**3,429**	**(856)**	**2,573**	**29,578**	**-**	**29,578**
Depreciation and amortization	(6,607)	-	(6,607)	(6,727)	-	(6,727)
Multi-client amortization	(661)	661	-	(715)	-	(715)
Operating profit/(loss) (EBIT)	**(3,839)**	**(195)**	**(4,034)**	**22,136**	**-**	**22,135**
Net financial expense	(9,307)	-	(9,307)	(8,466)	-	(8,465)
Profit/(loss) before tax	**(13,146)**	**(195)**	**(13,341)**	**13,670**	**-**	**13,670**
Other key segment reporting items:						
Net Working capital movement	(5,783)	856	(4,927)	-	-	-
Multi-client library net book value	577	14,832	15,409	2,287	-	2,287

	Nine months ended 30-Sep-20			Nine months ended 30-Sep-19		
(In thousands of USD)	**Segment**	**Adjustments²**	**As reported**	**Segment**	**Adjustments¹**	**As reported**
Revenues						
Contract revenue	101,244	-	101,244	227,323	-	227,323
Multi-client prefunding	12,494	(12,494)	-	56	8,106	8,162
Multi-client late sales	87	-	87	3,622	-	3,622
Other income	400	-	400	4,351	-	4,351
Total Revenues	**114,225**	**(12,494)**	**101,731**	**235,352**	**8,106**	**243,457**
Cost of sales	(83,231)	(1,909)	(85,140)	(169,807)	-	(169,807)
General and administrative costs	(7,865)	(91)	(7,956)	(9,802)	-	(9,802)
EBITDA	**23,129**	**(14,494)**	**8,635**	**55,743**	**8,106**	**63,848**
Depreciation and amortization	(19,032)	-	(19,032)	(19,673)	-	(19,673)
Multi-client amortization	(9,091)	8,446	(645)	(2,428)	(8,161)	(10,589)
Operating profit/(loss) (EBIT)	**(4,994)**	**(6,048)**	**(11,042)**	**33,642**	**(55)**	**33,587**
Net financial expense	(25,960)	-	(25,960)	(24,602)	-	(24,602)
Profit/(loss) before tax	**(30,954)**	**(6,048)**	**(37,002)**	**9,040**	**(55)**	**8,985**
Other key segment reporting items:						
Net Working capital movement	(7,005)	12,494	5,489	(14,510)	(8,106)	(22,616)
Multi-client library net book value	577	14,832	15,409	2,287	-	2,287

(In thousands of USD)	Year ended 31-Dec-19 Segment	Adjustments[1]	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 only*

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

4 Cost of sales

(In thousands of USD)	Quarter ended 30-Sep-20	30-Sep-19	Nine months ended 30-Sep-20	30-Sep-19	Year ended 31-Dec-19
Operating costs	21,970	61,670	88,754	165,370	214,654
Reimbursable cost	659	1,218	2,564	9,262	11,119
Gross cost of sales	**22,629**	**62,978**	**91,318**	**174,632**	**225,773**
Net deferred transit adjustment	(3,251)	7,766	(1,083)	(3,781)	(4,764)
Onerous contract provision unwinding	-	-	-	(1,043)	(1,160)
Capitalized to multi-client projects	-	-	(7,004)	-	(5,945)
Restructuring costs	-	-	1,909	-	-
Cost of sales	**19,378**	**70,744**	**85,140**	**169,807**	**213,904**

5 Depreciation and amortization

(In thousands of USD)	Quarter ended 30-Sep-20	30-Sep-19	Nine months ended 30-Sep-20	30-Sep-19	Year ended 31-Dec-19
Depreciation of seismic vessels and equipment	6,175	6,443	18,213	18,825	25,065
Depreciation of office equipment	47	42	144	127	173
Amortization of Right-of-use assets	376	242	1,112	721	963
Amortization of intangible assets	9	-	9	-	-
Depreciation capitalized to multi-client library	-	-	(446)	-	(315)
Total	**6,607**	**6,727**	**19,032**	**19,673**	**25,886**

6 Multi-client project library

(In thousands of USD)	Quarter ended 30-Sep-20	30-Sep-19	Nine months ended 30-Sep-20	30-Sep-19	Year ended 31-Dec-19
Balance at the beginning of the period	14,726	2,287	7,030	12,160	12,160
Investments during the period	683	-	8,578	-	6,071
Capitalized depreciation	-	-	446	-	315
Sale of multi-client library	-	(283)	-	(283)	(283)
Amortization	-	(715)	(645)	(10,589)	(11,233)
Balance at the period end	**15,409**	**1,289**	**15,409**	**1,289**	**7,030**

6.1 Investments in multi-client library

Investments and depreciation capitalized to the multi-client library during the quarter and nine months ended 30 September 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 September 2020 the Company has collected USD 19.6 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		Nine months ended		Year ended
(In thousands of USD)	**30-Sep-20**	**30-Sep-19**	**30-Sep-20**	**30-Sep-19**	**31-Dec-19**
Interest expenses on bond loans	4,357	3,360	11,564	9,919	13,412
Interest expenses on other interest bearing debt	4,415	4,833	13,816	14,171	19,126
Interest expense on leases	41	7	103	22	35
Net interest expenses	**8,813**	**8,200**	**25,483**	**24,112**	**32,572**
Other finance costs	275	310	525	761	970
Currency exchange losses	390	185	1,211	439	675
Total	**9,478**	**8,695**	**27,219**	**25,311**	**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	6,879	8	6,887
Balance as at 30 September 2020	1,083,763	3,640	1,087,403
Depreciation and impairments			
Balance as at 1 January 2020	713,900	3,281	717,181
Depreciation for the period	18,213	144	18,357
Balance as at 30 September 2020	732,113	3,425	735,538
Carrying amounts			
As at 1 January 2020	362,984	351	363,335
As at 30 September 2020	**351,650**	**215**	**351,865**
Pledged assets as at 30 September 2020	348,707	-	348,707

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	2,650	-	2,650
Depreciation expense	(926)	(186)	(1,112)
Balance as at 30 September 2020	**2,898**	**212**	**3,110**

The USD 2.6 million additions to the right-of-use assets during the nine months ended 30 September 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-Sep-20	Quarter ended 30-Sep-19	Nine months ended 30-Sep-20	Nine months ended 30-Sep-19	Year ended 31-Dec-19
Balance at the beginning of the period	3,475	1,950	1,392	2,323	2,323
Additions	-	-	2,649	-	-
Lease payments during the period	(375)	(189)	(941)	(562)	(930)
Interest expense on leases	41	7	103	22	35
Interest on leases paid	(41)	(7)	(103)	(22)	(35)
Balance at the period end	**3,100**	**1,761**	**3,100**	**1,761**	**1,392**
Of which:					
Current liability portion	1,307	1,034	1,307	1,034	860
Non-current liability	1,793	727	1,793	727	532

During the quarter and nine months ended 30 September 2020, the Company recognized rental expenses of USD 2.3 million and 12.8 million respectively, towards short-term leases (USD 23.7 million and USD 45.2 million for the same periods in 2019).

10 Interest bearing debt

(In thousands of USD)	Nominal outstanding value 30-Sep-20	Carrying value 30-Sep-20	Carrying value 30-Sep-19	Carrying value 31-Dec-19
Bond loans				
125M USD secured, convertible bonds - Tranche A	59,072	25,521	21,229	21,821
125M USD convertible bonds - Tranche B	3,924	1,904	1,225	1,394
95M USD unsecured bonds	10,847	5,909	4,194	4,626
350M NOK unsecured bonds	6,278	3,290	2,730	3,019
Total bond loans	**80,121**	**36,624**	**29,377**	**30,861**
Other interest bearing debt				
Fleet bank facility - Tranche 1	41,324	40,509	39,888	40,105
Fleet bank facility - Tranche 2	32,773	33,221	36,143	33,157
Fleet bank facility - Tranche 3	72,865	71,908	75,464	74,612
Fleet bank facility - Tranche 4	86,045	81,400	79,762	80,284
New Fleet Facility for N-Class vessels	74,945	72,878	71,925	72,160
DNB loan facility	2,672	2,669	5,664	5,666
Working capital facility	25,000	25,000	-	-
Total other interest bearing debt	**335,624**	**327,585**	**308,846**	**305,984**
Total Interest bearing debt	**415,745**	**364,209**	**338,223**	**336,844**
Of which:				
Current liability portion		29,975	13,600	10,600
Non-current liability		334,234	324,623	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 nine months ended 30 September 2020 the Company paid USD 0.1 million and USD 0.3 million respectively to Zickerman Group DMCC for consultancy services (USD 0.1 million and USD 0.3 million for the same periods in 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.