Fourth Quarter and Preliminary Full Year Report

2019

Polarcus Limited

FOURTH QUARTER AND PRELIMINARY FULL YEAR 2019

Strong increase in full year earnings

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

Q4 2019 HEADLINES

- Segment revenues of USD 55.3 million, compared to USD 58.4 million in Q4 2018
- Segment EBITDA of USD 7.6 million, up from USD 2.5 million in Q4 2018
- Net cash flows from operating activities of USD 21.9 million, up from USD 11.5 million in Q4 2018
- Vessel utilization of 71%, compared to 96% in Q4 2018
- Seven new contracts secured since the end of Q3 2019

FULL YEAR 2019 HEADLINES

- Segment revenues of USD 290.6 million, up from USD 202.2 million in 2018
- Segment EBITDA of USD 63.4 million, up from USD 29.1 million in 2018
- Segment EBIT of USD 28.0 million, up from negative USD 19.8 million in 2018
- Net cash flows from operating activities of USD 60.9 million, up from USD 11.3 million in 2018
- Total cash balance of USD 36.5 million, up from USD 31.2 million at end of 2018
- Vessel utilization of 79% with significantly higher contract day rates achieved compared to 2018
- Strong operational performance and excellent safety record maintained
- Backlog at USD 240 million; the highest level since 2014

2019 financial results reflect a significantly improved seismic market resulting in substantially higher realized day rates year-on-year. Segment revenues of USD 290.6 million increased 44% compared to USD 202.2 million in 2018, despite a lower fleet utilization of 79% compared to 87% in 2018.

The increased pricing level was maintained through Q4 2019. However, as anticipated, quarterly revenue was impacted by lower utilization resulting from planned repositioning of the fleet, as well as a delayed contract award on one project and an extended yard stay for one vessel. Despite lower revenue, fourth quarter Segment EBITDA increased to USD 7.6 million compared to USD 2.5 million in the same quarter last year, driven by lower gross cost of sales and more costs capitalized to multi-client projects.

During 2019 the Company successfully and safely executed a range of complex projects including the industry's largest 4D project for the year, a multi-vessel wide-azimuth project, and a hybrid (streamer-node) project. All three projects were technically demanding and completed in challenging environments from harsh sea ice conditions through to obstructed shallow water. The Company delivered strong operational performance with technical downtime of less than 2% and maintained its strong environmental, health and safety performance.

The 44% increase in revenue during the year was accompanied by an associated increase in project specific costs, notably related to the hybrid (streamer-node) project which was acquired using third party services as well as increased costs attributable to the source and support vessels required for the wide-azimuth project. This resulted in a 26% increase in gross cost of sales to USD 225.8 million, up from USD 179.1 million in 2018. The improved revenues significantly offset the higher cost of sales which resulted in more than doubling segment EBITDA to USD 63.4 million, compared to USD 29.1 million in 2018.

Net cash flows from operating activities during 2019 improved to USD 60.9 million, compared to USD 11.3 million in 2018. Multi-client investments in 2019 were USD 6.1 million with prefunding revenue of USD 10.2 million resulting in 168% prefunding. Payments for PP&E in 2019 was USD 16.7 million with USD 3.7 million relating to acquisition of new streamers on attractive terms. As a result of the increased streamer pool and the continued high-quality output from the in-house streamer repair facility, the Company does not anticipate any significant capital expenditure on streamers until 2022, at which time a gradual investment profile is anticipated.

Total cash at year-end increased to USD 36.5 million from USD 31.2 million on 31 December 2018. The Company's USD 40 million working capital facility remained undrawn throughout the year.

OUTLOOK

Robust levels of tender activity developed throughout 2019 driven by solid demand from both E&P companies and multi-client companies without vessels. Recent increases in contract pricing have been underpinned by tighter supply and demand balance in the marine seismic acquisition segment.

The reshaping of the seismic industry that has occurred, resulting in an increased number of multi-client companies without vessels, provides a catalyst to drive further positive market developments assuming global energy demand is maintained. Opportunities to increase prices will be driven by healthy levels of exploration and production activity and sustained supply side discipline. The Company will continue to prioritise projects with superior margins reflecting its operational capabilities.

During the year, the Company launched Polarcus Cirrus™ in collaboration with its digitalization partners DownUnder GeoSolutions and Blueware. Cirrus™ comprises a suite of cloud-based applications and services designed to bring clients near real-time access to high fidelity data, optimised through more sophisticated priority processing. This offering is expected to gain further momentum during 2020 as more E&P clients realise the opportunity of accelerated decision-making to compress the timeline for hydrocarbon production.

Industry-wide focus on the environment continues to sharpen. Polarcus is receiving growing recognition for its Explore Green™ capabilities, a cornerstone of the Company since inception. Polarcus leads the way in the monitoring and improvement of acoustic, gaseous, solid and liquid emissions and expects this to be well-received by stakeholders going forward.

The Company's fleet is 100% booked into late Q2 2020 and 65% booked for full year 2020. Backlog at 31 December 2019 and value of awards announced after the quarter end is estimated at USD 240 million. This is the strongest backlog since 2014. With a young and uniform fleet, demonstrated operational excellence, and best in class data transfer and remote priority processing capabilities, Polarcus is well-positioned to continue benefiting from an improving market.

KEY FINANCIALS

	Quarter ended		Year ended	
(In millions of USD)	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Segment reporting				
Revenues	55.3	58.4	290.6	202.2
EBITDA	7.6	2.5	63.4	29.1
EBIT	(5.6)	(5.8)	28.0	(19.8)
As per IFRS				
Revenues	45.1	66.6	288.6	228.9
EBITDA	(2.5)	9.6	61.4	67.5
EBITDA (before non-recurring items)	(2.5)	10.7	61.4	55.9
EBIT	(9.3)	(18.8)	24.3	(15.3)
EBIT (before non-recurring items)	(9.3)	(11.4)	24.3	(25.1)
Net profit/(loss) for the period	(19.0)	(18.1)	(10.0)	(31.8)
Basic earnings/(loss) per share (USD)	(0.04)	(0.04)	(0.02)	(0.07)
Net cash flows from operating activities	21.9	11.5	60.9	11.3
Total assets (period end)	458.7	465.6	458.7	465.6
Total liabilities (period end)	390.1	387.3	390.1	387.3
Total Equity (period end)	68.6	78.3	68.6	78.3
Equity Ratio	15%	17%	15%	17%
PP&E cash investment	5.9	1.7	16.7	82.2
Multi-client projects cash investment	6.1	0.5	6.1	18.7
Total cash (period end)	36.5	31.2	36.5	31.2
Net interest bearing debt (period end)	301.5	306.1	301.5	306.1

Financial Results (in accordance with IFRS)

Revenues

(In millions of USD)	Quarter ended 31-Dec-19	Quarter ended 31-Dec-18	Year ended 31-Dec-19	Year ended 31-Dec-18
Contract revenue				
- Proprietary contracts	32.5	45.2	228.7	130.6
- Reimbursable	2.1	5.7	12.9	14.3
- Management fees	-	0.1	-	10.7
- Bare boat charter	6.8	6.8	27.2	27.1
	41.4	57.9	268.8	182.7
Multi-client revenue				
- Prefunding	-	8.5	8.2	40.8
- Late sales	2.3	0.2	5.9	4.5
	2.3	8.7	14.1	45.4
Other income	1.4	-	5.7	0.8
Total	**45.1**	**66.6**	**288.6**	**228.9**

Revenues decreased by 32% in Q4 2019 to USD 45.1 million (Q4 2018: USD 66.6 million), mainly due to lower utilization of the Polarcus fleet.

Total proprietary contract revenue, including reimbursable revenue, decreased to USD 41.4 million (Q4 2018: USD 57.9 million). This was mainly driven by a reduction in the contract seismic fleet allocation to 64% compared to 96% in Q4 2018 due to more vessel time being allocated to multi-client projects, longer transits, yard stays and idle time across the fleet. The impact of lower utilisation was partially offset by higher realized day rates achieved in the quarter. Reimbursable revenue in the quarter reduced to USD 2.1 million compared to USD 5.7 million in Q4 2018 while bare boat charter revenue remained flat at USD 6.8 million

Multi-client late sales during the quarter increased to USD 2.3 million (Q4 2018: USD 0.2 million). There was no revenue recognized from multi-client prefunding during the quarter as a result of the IFRS 15 impact on the timing of revenue recognition (Q4 2018: USD 8.5 million). Vessel allocation to multi-client projects increased to 7% (Q4 2018: 0%).

Operating Expenses

(In millions of USD)	Quarter ended 31-Dec-19	Quarter ended 31-Dec-18	Year ended 31-Dec-19	Year ended 31-Dec-18
Operating costs	49.2	46.5	214.7	165.2
Reimbursable cost	1.9	5.5	11.1	13.9
Gross cost of sales	**51.1**	**52.0**	**225.8**	**179.1**
Net deferred transit adjustment	(1.0)	-	(4.8)	-
Net movement in onerous contract provision	(0.1)	-	(1.2)	(5.5)
Capitalized to multi-client projects	(5.9)	-	(5.9)	(14.1)
Gain on termination of vessel operating lease	-	-	-	(13.9)
Net movement in bad debt provision	-	0.4	-	0.4
Cost of sales	**44.1**	**52.4**	**213.9**	**146.0**

Gross cost of sales in the quarter was USD 51.1 million, marginally lower compared to Q4 2018 despite higher costs related to the multi-vessel wide-azimuth project completed during the quarter. During the quarter, the Company capitalized USD 5.9 million of operating cost to a multi-client project in Australia which commenced during Q4 2019. Net transit cost deferred in the quarter was USD 1.0 million (no transit cost adjustments in Q4 2018). Cost of sales decreased to USD 44.1 million (Q4 2018: USD 52.4 million) due to costs capitalized to multi-client projects and transit costs deferred into subsequent periods.

General and administrative costs were USD 3.5 million during the quarter, at the same level as in Q4 2018.

Depreciation and amortization

Depreciation and amortization during the quarter was USD 6.2 million (Q4 2018: USD 7.4 million). Amortization of multi-client projects decreased to USD 0.6 million (Q4 2018: USD 14.7 million) due to a decrease in multi-client prefunding revenue recognised during the quarter.

Net profit and earnings per share

The Company recorded a net loss of USD 19.0 million in Q4 2019, compared to a loss of USD 18.1 million in Q4 2018 after a gain on financial restructuring of USD 8.1 million was recorded last year. During the quarter USD 1.1 million was accrued towards income tax liabilities (nil income tax costs accrued in Q4 2018). Basic and diluted EPS for the quarter was a loss of USD 0.037 per share (Q4 2018: loss of USD 0.040 per share).

Capital expenditure

(In millions of USD)	Quarter ended 31-Dec-19	Quarter ended 31-Dec-18	Year ended 31-Dec-19	Year ended 31-Dec-18
Seismic and other equipment	7.0	1.2	18.9	6.8
Seismic vessels (*Polarcus Nadia* and *Polarcus Naila*)	-	-	-	71.9
Other	0.3	-	0.3	0.5
Total	**7.3**	**1.2**	**19.2**	**79.2**

Capital expenditure during the quarter was USD 7.3 million (Q4 2018: USD 1.2 million), of which USD 4.5 million was related to the periodic docking of two of the Company's core vessels.

Cash flow and liquidity

Net cash flow from operating activities in Q4 2019 was USD 21.9 million (Q4 2018: USD 11.5 million). Net cash flow used in investing activities was USD 11.3 million (Q4 2018: USD 2.2 million). During the quarter the Company invested USD 6.1 million in multi-client projects (Q4 2018: USD 0.5 million) and USD 5.9 million in property, plant and equipment (Q4 2018: USD 1.7 million). The Company also divested a multi-client asset for USD 1 million during the quarter.

Net cash flow used in financing activities was USD 9.6 million (Q4 2018: USD 5.3 million). Interest paid during the quarter was USD 4.0 million (Q4 2018: USD 4.1 million). Repayment of interest-bearing debt in the quarter was USD 5.1 million (Q4 2018: USD 2.1 million) including increased repayments on account of satisfactory Company performance on a large proprietary contract, which was completed in Q3 2019, in line with the Fleet Bank Facility agreement.

Total cash held at the quarter end increased to USD 36.5 million compared to USD 31.2 million at the same time last year. Total cash includes restricted cash of USD 1.2 million (Q4 2018: USD 1.1 million). The Company's USD 40 million working capital facility remained undrawn at the quarter end.

Vessel utilization

	Quarter ended 31-Dec-19	Quarter ended 31-Dec-18	Year ended 31-Dec-19	Year ended 31-Dec-18
Utilization	**71%**	**96%**	**79%**	**87%**
By category:				
Contract*	64%	96%	77%	82%
Multi-Client	7%	-	2%	5%
Transit	13%	2%	13%	10%
Yard stay	11%	2%	5%	1%
Standby	5%	-	3%	2%
Total	**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.

Vessel utilisation of 71% was lower during the quarter compared to 96% in Q4 2018 mainly due to yard stays relating to the periodic dry docking of two vessels as well as increased vessel time on standby and transits.

Excluding the vessels on bare boat charters (and *Polarcus Nadia*), utilization for the Company's core fleet was 55% for the quarter (Q4 2018: 95%) and 69% for the year ended 31 December 2019 (2018: 82%).

Interim consolidated statement of comprehensive income

(In thousands of USD)	Notes	Quarter ended 31-Dec-19	Quarter ended 31-Dec-18	Year ended 31-Dec-19	Year ended 31-Dec-18
Revenues					
Contract revenue	3	41,501	57,879	268,825	182,745
Multi-client revenue	3	2,271	8,746	14,054	45,358
Other income	3	1,362	-	5,712	798
Total Revenues		**45,134**	**66,625**	**288,591**	**228,901**
Operating expenses					
Cost of sales	4	(44,096)	(52,446)	(213,904)	(146,027)
General and administrative costs		(3,517)	(3,461)	(13,318)	(14,169)
Onerous contracts		-	(1,160)	-	(1,160)
Depreciation and amortization	5	(6,213)	(7,371)	(25,886)	(26,647)
Multi-client amortization	6	(644)	(14,720)	(11,233)	(51,358)
Impairments		-	(6,229)	-	(4,878)
Total Operating expenses		**(54,470)**	**(85,387)**	**(264,341)**	**(244,240)**
Operating profit/(loss)		**(9,336)**	**(18,762)**	**24,250**	**(15,338)**
Finance costs	7	(8,905)	(7,784)	(34,217)	(33,478)
Finance income		303	348	1,013	1,841
Changes in fair value of financial instruments		-	-	-	479
Gain on financial restructuring		-	8,118	-	14,517
		(8,602)	**682**	**(33,204)**	**(16,641)**
Profit/(loss) before tax		**(17,938)**	**(18,080)**	**(8,954)**	**(31,979)**
Income tax expense		(1,067)	-	(1,080)	191
Net profit/(loss) and total comprehensive income/(loss)		**(19,005)**	**(18,080)**	**(10,034)**	**(31,788)**
Earnings per share attributable to the equity holders during the period *(In USD)*					
- Basic		(0.037)	(0.040)	(0.020)	(0.071)
- Diluted		(0.037)	(0.040)	(0.020)	(0.071)

Interim consolidated statement of financial position

(In thousands of USD)	Notes	31-Dec-19	31-Dec-18
Assets			
Non-current Assets			
Property, plant and equipment	8	363,335	369,629
Multi-client project library	6	7,030	12,160
Right-of-use assets	9	1,572	-
Intangible assets		290	-
Total Non-current Assets		**372,227**	**381,789**
Current Assets			
Receivable from customers		32,078	39,583
Other current assets		17,926	13,132
Restricted cash		1,235	1,153
Cash and bank		35,234	30,005
Total Current Assets		**86,473**	**83,873**
Total Assets		**458,700**	**465,662**
Equity and Liabilities			
Equity			
Issued share capital		51,379	51,379
Share premium		635,906	635,906
Other reserves		25,369	25,961
Retained earnings/(loss)		(644,097)	(634,955)
Total Equity		**68,557**	**78,291**
Non-current Liabilities			
Interest bearing debt	10	326,244	325,500
Lease liabilities	9	532	-
Total Non-current Liabilities		**326,776**	**325,500**
Current Liabilities			
Interest bearing debt	10	10,600	10,600
Lease liabilities	9	860	-
Provisions		-	1,160
Accounts payable		14,771	21,417
Other accruals and payables		37,136	28,694
Total Current Liabilities		**63,367**	**61,871**
Total Equity and Liabilities		**458,700**	**465,662**

Interim consolidated statement of cash flows

		Quarter ended		Year ended	
(In thousands of USD)	Notes	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Cash flows from operating activities					
Profit/(loss) for the period before income tax		(17,938)	(18,080)	(8,954)	(31,979)
Adjustment for:					
Depreciation and amortization	5	6,213	7,371	25,886	26,647
Multi-client amortization	6	644	14,720	11,233	51,358
Impairments		-	6,229	-	4,878
Gain on sale of assets	6	(1,000)	-	(1,117)	-
Changes in fair value of financial instruments		-	-	-	(479)
Employee share option expenses		128	186	300	589
Interest expense	7	8,670	7,554	33,542	31,660
Interest income		(76)	(108)	(370)	(397)
Income tax paid		(17)	-	(30)	191
Gain on financial restructuring		-	(8,118)	-	(14,517)
Gain on termination of vessel operating lease		-	-	-	(13,907)
Effect of currency (gain)/loss		(72)	18	133	281
Net movements in provisions	4	(117)	1,160	(1,160)	(4,329)
Net working capital movements		25,458	546	1,440	(38,671)
Net cash flows from operating activities		**21,893**	**11,478**	**60,903**	**11,328**
Cash flows from investing activities					
Payments for property, plant and equipment		(5,901)	(1,673)	(16,727)	(82,184)
Payments for multi-client library	6	(6,071)	(541)	(6,071)	(18,667)
Payments for intangible assets		(290)		(290)	
Proceeds from sale of multi-client library	6	1,000	-	1,400	6,500
Net cash flows from/(used in) investing activities		**(11,262)**	**(2,214)**	**(21,688)**	**(94,351)**
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		-	-	-	43,021
Transaction costs on issue of shares		-	-	-	(1,719)
Net receipt from bank loans		-	-	-	82,672
Repayment of interest bearing debt		(5,150)	(2,150)	(14,000)	(15,475)
Lease liabilities paid	9	(369)	-	(930)	-
Interest paid		(3,965)	(4,084)	(18,311)	(16,785)
Financial restructuring fees paid		-	-	-	(3,856)
Other finance costs paid		(210)	(356)	(970)	(1,149)
Decrease/(Increase) in restricted cash		(28)	1,158	(82)	6,664
Security deposit related to currency swaps		-	-	-	1,370
Paid towards liability under currency swaps		-	-	-	(7,672)
Interest received		76	108	370	397
Net cash flows from/(used in) financing activities		**(9,644)**	**(5,323)**	**(33,923)**	**87,468**
Effect of foreign currency revaluation on cash		100	(6)	(63)	(286)
Net increase in cash and cash equivalents		**1,087**	**3,934**	**5,229**	**4,159**
Cash and cash equivalents at the beginning of the period		34,147	26,071	30,005	25,846
Cash and cash equivalents at the end of the period		**35,234**	**30,005**	**35,234**	**30,005**

Interim consolidated statement of changes in equity

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 income 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.

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 share based incentives		-	-	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 year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Board of Directors passed on 26 February 2020.

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 year ended 31 December 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 Q1 2020 and 65% for full year 2020. Pricing levels of recent awards reflect an improvement in the global marine acquisition market. The Company's backlog at 31 December 2019 and value of awards announced after the quarter end is estimated at USD 240 million.

2 Basis of presentation

These interim consolidated financial statements for the quarter and year ended 31 December 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 in 2019

2.1.1 IFRS 16 *Leases*

The Company 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 amortized over the useful life (usually the lease period).

The Company 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 Company 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 Company 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 31-Dec-19			Quarter ended 31-Dec-18		
(In thousands of USD)	**Segment**	**Adjustments[1]**	**As reported**	**Segment**	**Adjustments[2]**	**As reported**
Revenues						
Contract revenue	41,501	-	41,501	57,879	-	57,879
Multi-client prefunding	10,126	(10,126)	-	291	8,233	8,525
Multi-client late sales	2,271	-	2,271	221	-	221
Other income (Note 3.1)	1,362	-	1,362	-	-	-
Total Revenues	**55,260**	**(10,126)**	**45,134**	**58,392**	**8,233**	**66,625**
Cost of sales	(44,096)	-	(44,096)	(52,446)	-	(52,446)
General and administrative costs	(3,517)	-	(3,517)	(3,461)	-	(3,461)
Onerous contracts	-	-	-	-	(1,160)	(1,160)
EBITDA	**7,647**	**(10,126)**	**(2,479)**	**2,485**	**7,073**	**9,558**
Depreciation and amortization	(6,213)	-	(6,213)	(7,371)	-	(7,371)
Multi-client amortization	(7,030)	6,386	(644)	(939)	(13,781)	(14,721)
Impairments	-	-	-	-	(6,229)	(6,229)
Operating profit/(loss) (EBIT)	**(5,596)**	**(3,740)**	**(9,336)**	**(5,825)**	**(12,937)**	**(18,762)**
Net financial expense	(8,602)	-	(8,602)	(7,436)	8,118	682
Profit/(loss) before tax	**(14,198)**	**(3,740)**	**(17,938)**	**(13,261)**	**(4,819)**	**(18,080)**

	Year ended 31-Dec-19			Year ended 31-Dec-18		
(In thousands of USD)	**Segment**	**Adjustments[1]**	**As reported**	**Segment**	**Adjustments[2]**	**As reported**
Revenues						
Contract revenue	268,825	-	268,825	182,746	-	182,746
Multi-client prefunding	10,181	(2,020)	8,161	14,080	26,743	40,823
Multi-client late sales	5,893	-	5,893	4,535	-	4,535
Other income (Note 3.1)	5,712	-	5,712	798	-	798
Total Revenues	**290,611**	**(2,020)**	**288,591**	**202,159**	**26,743**	**228,901**
Cost of sales	(213,904)	-	(213,904)	(159,934)	13,907	(146,027)
General and administrative costs	(13,318)		(13,318)	(13,115)	(1,054)	(14,169)
Onerous contracts	-	-	-	-	(1,160)	(1,160)
EBITDA	**63,389**	**(2,020)**	**61,369**	**29,110**	**38,434**	**67,545**
Depreciation and amortization	(25,886)	-	(25,886)	(26,647)	-	(26,647)
Multi-client amortization	(9,457)	(1,776)	(11,233)	(22,268)	(29,090)	(51,358)
Impairments	-	-	-	-	(4,878)	(4,878)
Operating profit/(loss) (EBIT)	**28,046**	**(3,796)**	**24,250**	**(19,805)**	**4,467**	**(15,338)**
Net financial expense	(33,204)	-	(33,204)	(31,157)	14,517	(16,641)
Profit/(loss) before tax	**(5,158)**	**(3,796)**	**(8,954)**	**(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)*

3.1 Other income

Other income includes the gain on sale of multi-client assets of USD 1.0 million for the quarter and USD 1.1 million for the year ended 31 December 2019. Also refer to Note 6.3 *Sale of multi-client* library. The remaining Other income of USD 0.4 million for the quarter and USD 4.6 million for the year ended 31 December 2019 represents the revenue recognized from insurance claims.

4 Cost of sales

	Quarter ended		Year ended	
(In thousands of USD)	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Operating costs	49,284	46,539	214,654	165,154
Reimbursable cost	1,856	5,476	11,119	13,946
Gross cost of sales	**51,141**	**52,016**	**225,773**	**179,100**
Net deferred transit adjustment	(982)	-	(4,764)	-
Onerous contract provision unwinding	(117)	-	(1,160)	(5,489)
Capitalized to multi-client projects	(5,945)	-	(5,945)	(14,108)
Gain on termination of vessel operating lease	-	-	-	(13,907)
Bad debt provision	-	430	-	430
Cost of sales	**44,096**	**52,446**	**213,904**	**146,027**

5 Depreciation and amortization

	Quarter ended		Year ended	
(In thousands of USD)	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Depreciation of seismic vessels and equipment	6,240	7,287	25,065	27,369
Depreciation of office equipment	46	83	173	134
Amortization of Right-of-use assets	242	-	963	-
Depreciation capitalized to multi-client library	(315)	-	(315)	(856)
Total	**6,213**	**7,371**	**25,886**	**26,647**

6 Multi-client project library

	Quarter ended		Year ended	
(In thousands of USD)	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Balance at the beginning of the period	1,288	26,893	12,160	51,317
Investments during the period	6,071	(13)	6,071	16,495
Capitalized depreciation	315	-	315	856
Sale of multi-client library	-	-	(283)	(6,500)
Amortization	(644)	(14,720)	(11,233)	(51,358)
Impairments	-	-	-	1,351
Balance at the period end	**7,030**	**12,160**	**7,030**	**12,160**

6.1 Investments in multi-client library

Total costs of USD 6.4 million capitalised to the multi-client library during the quarter and year ended 31 December 2019 represents the investments in a multi-client project in Australia for which the Company started acquiring data during Q4 2019. The Company expects the data processing for this project to be completed and data to be delivered to the clients during Q4 2020. As at 31 December 2019 the Company has collected USD 11.7 million from customers towards prefunding for this project, which has been recognized as a liability (under "Other accruals and payables") in the statement of financial position.

6.2 Amortization of multi-client library

The amortization of multi-client library during the quarter ended 31 December 2019 represents the straight-line amortization of one multi-client library.

During the year ended 31 December 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. The Company amortised 100% of the carrying value of this project (USD 8.2 million) in the same period. The remaining amortization of USD 3.0 million during the year ended 31 December 2019 represents the straight-line amortization recognised on two multi-client projects.

6.3 Sale of multi-client library

During the quarter ended 31 December 2019, the Company sold one of its multi-client projects for a cash consideration of USD 1.0 million. This multi-client project had previously been fully amortized and had a zero carrying value on the date of sale. Therefore, the Company recognized a gain on sale of assets (i.e. "Other income") of USD 1.0 million in the quarter.

The sale of multi-client library for USD 0.3 million during the year ended 31 December 2019 represents the sale of one of the multi-client project libraries for a cash consideration of USD 0.4 million. The carrying value of the multi-client library at the date of sale was USD 0.3 million, therefore the Company recognized a gain on sale of assets (i.e. "Other income") of USD 0.1 million. Also refer to Note 3.1 *Other income.*

7 Finance costs

	Quarter ended		Year ended	
(In thousands of USD)	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Interest expenses on bond loans	3,493	1,802	13,412	11,639
Interest expenses on other interest bearing debt	4,955	5,397	19,126	18,873
Interest expense on leases	12	-	35	-
Net interest expenses	**8,460**	**7,198**	**32,572**	**30,512**
Other finance costs	210	356	970	1,149
Currency exchange losses	235	230	675	1,818
Total	**8,905**	**7,784**	**34,217**	**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	18,889	55	18,944
Balance as at 31 December 2019	1,076,884	3,632	1,080,516
Depreciation and impairments			
Balance as at 1 January 2019	688,835	3,108	691,943
Depreciation for the period	25,065	173	25,238
Balance as at 31 December 2019	713,900	3,281	717,181
Carrying amounts			
As at 1 January 2019	369,160	469	369,629
As at 31 December 2019	**362,984**	**351**	**363,335**
Pledged assets as at 31 December 2019	358,888	-	358,888

9 Right-of-use assets and lease liabilities

The Company 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

(In thousands of USD)

	Equipment onboard the vessels	**Office premises**	**Total**
Initial measurement			
Net present value of lease liabilities	1,869	453	2,323
Initial direct costs	27	-	27
Prepaid leases	-	186	186
Balance as at 1 January 2019	**1,896**	**639**	**2,535**
Additions	-	-	-
Depreciation expense	(722)	(241)	(963)
Balance as at 31 December 2019	**1,174**	**398**	**1,572**

9.2 Lease liabilities

	Quarter ended		Year ended	
(In thousands of USD)	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Balance at the beginning of the period	**1,761**	**-**	**2,323**	
Lease payments during the period	(369)	-	(930)	-
Interest expense on leases	13	-	35	-
Interest on leases paid	(13)	-	(35)	-
Balance at the period end	**1,392**	**-**	**1,392**	**-**
Of which:				
Current liability portion	860	-	860	-
Non-current liability	532	-	532	-

During the quarter and year ended 31 December 2019, the Company recognized rental expenses of USD 4.0 million and USD 16.5 million respectively towards the short-term leases.

10 Interest bearing debt

(In thousands of USD)	Nominal outstanding value 31-Dec-19	**31-Dec-19**	**31-Dec-18**
Bond loans			
125M USD secured, convertible bonds - Tranche A	62,130	21,821	20,047
125M USD convertible bonds - Tranche B	3,735	1,394	730
95M USD unsecured bonds	10,324	4,626	2,916
350M NOK unsecured bonds	6,384	3,019	1,877
Total bond loans	**82,573**	**30,860**	**25,570**
Other interest bearing debt			
Fleet bank facility - Tranche 1	41,324	40,105	39,290
Fleet bank facility - Tranche 2	32,773	33,157	36,085
Fleet bank facility - Tranche 3	75,865	74,612	78,003
Fleet bank facility - Tranche 4	86,045	80,284	78,282
New Fleet Facility for N-Class vessels	74,945	72,160	71,210
DNB loan facility	5,672	5,666	7,660
Total other interest bearing debt	**316,624**	**305,984**	**310,529**
Total Interest bearing debt	**399,197**	**336,844**	**336,100**
Of which:			
Current liability portion		10,600	10,600
Non-current liability		326,244	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 year ended 31 December 2019 the Company paid USD 0.1 million and USD 0.7 million respectively to Zickerman Group DMCC for consultancy services (USD 0.1 million and USD 0.4 million for the same periods in 2018).

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 Company has provided additional information on the APMs used by the Company.

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 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	Profit/(loss) 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)	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 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. 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 effective 1 January 2018 on 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, restructuring costs and other non-operational costs. The Company 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 Company'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 Company'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 in 2017 before the mandatory adoption of IFRS 15. The Company uses Segment revenue to allow consistency between 2019 and 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 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) shows the EBIT and EBITDA of the Company 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 Company to be part of the underlying core business as they are more irregular in both amount and frequency of occurrence.