Polarcus

Third Quarter Report

2019

Polarcus Limited

THIRD QUARTER 2019

Exceptional performance in an improving market

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 for further details.

HEADLINES Q3 2019

- Segment revenues of USD 103.4 million, up from USD 55.2 million in Q3 2018
- Segment EBITDA of USD 29.6 million, up from USD 7.3 million in Q3 2018
- Improved cashflow from operations before changes in working capital of USD 29.7 million, up from USD 9.6 million in Q3 2018
- Total cash balance of USD 35.4 million, up from USD 23.8 million at the end of the previous quarter
- Successful completion of the industry's largest 4D project in 2019 and strong production on the multi-vessel wide azimuth project
- Solid operational performance with very high technical uptime
- Backlog of USD 145 million, compared to USD 170 million at the same time last year

As anticipated Polarcus recorded a very strong third quarter, with segment revenues of USD 103.4 million. The 87% increase compared to same period last year highlights the Company's ability to generate premium rates where the value of several differentiating features of the Polarcus fleet and operational capabilities are recognized by clients. Higher than modelled levels of productivity driven by operational excellence of Polarcus field crews enabled revenues from a number of complex projects to be optimized. This resulted in acceleration of some revenue into Q3 2019.

Segment EBITDA in the quarter increased to USD 29.6 million compared to USD 7.3 million in Q3 2018 driven by strong revenue. The significant growth in revenue, driven by a 155% improvement of realised contract day rates, more than compensated for the absence of multi-client revenue and third-party vessel management fees. This reflects the Company's strategy of focusing on the contract acquisition market. Fleet utilization was 74% compared to 79% in Q3 2018.

The significantly increased revenue had associated project specific costs resulting in a 40% increase in gross cost of sales to USD 63.0 million compared to USD 44.8 million in Q3 2018, driven by a large fleet of source and support vessels deployed on the wide-azimuth and 4D projects and other costs specific to these complex projects. In addition, the cost was inflated by USD 7.7 million in previously deferred mobilization and transit costs. General and administrative cost for the quarter was USD 3.1 million, maintained at the same level as Q3 2018.

Cash generated from operations before changes in working capital during the quarter increased to USD 29.7 million, compared to USD 9.6 million in Q3 2018. The net segment working capital movement in the quarter was negative USD 1.4 million, compared to negative USD 9.2 million in Q3 2018. Capex investment for the quarter was USD 8.6 million of which USD 4 million was invested in new streamers on attractive terms. This investment along with increased output of the Polarcus streamer repair facility has maintained the streamer pool at a healthy level with excess capacity, which provides flexibility and a more gradual investment profile beyond 2021.

The strong cash generation during the quarter led to total cash at the quarter end of USD 35.4 million compared to USD 23.8 million at the end of the previous quarter. The Company's USD 40 million working capital facility remained undrawn.

OUTLOOK

Despite the recent oil price volatility, levels of tender activity from E&P companies continue to improve gradually. The reshaping of the seismic industry and ongoing consolidation of seismic vessel operators should lead to Polarcus having an expanded client base of more multi-client companies without vessels. In addition, seismic data acquisition capacity has been reduced in recent years which is expected to remain in place going into 2020.

The Company's backlog at 30 September 2019 and value of awards announced after the quarter end is estimated at USD 145 million. While this represents a slight reduction in total backlog compared to Q3 2018, the proprietary contract backlog remained flat year on year at USD 105 million.

Three of the Company's core vessels are fully booked to Q2 2020, while one vessel has available capacity in Q4 2019. This may lead to some idle time during Q4 2019 reflecting the focus on prioritizing projects with superior margins and appropriate contract terms. The level of backlog is expected to build through the fourth quarter, and the Company will continue to prioritise projects with suitable rates reflecting its operational capabilities.

Following an exceptional third quarter, earnings in Q4 2019 will be reduced sequentially but are expected to be stronger than in the same quarter last year.

With oil prices around current levels, margins in the seismic market are expected to continue improving driven by the steady increase in underlying demand combined with the supply-side discipline observed to date With a young and high-performing fleet, Polarcus is well positioned to continue benefiting from the improving market.

KEY FINANCIALS

(In millions of USD)	Quarter ended 30-Sep-19	30-Sep-18	Nine months ended 30-Sep-19	30-Sep-18	Year ended 31-Dec-18
Segment reporting					
Revenues	103.4	55.2	235.4	143.8	202.2
EBITDA	29.6	7.3	55.7	26.6	29.1
EBIT	22.1	(0.9)	33.6	(14.0)	(19.8)
Cash from operations before changes in working capital	29.7	9.6	54.9	22.4	23.2
Net working capital movement	(1.4)	(9.2)	(15.9)	(22.6)	(11.9)
As per IFRS					
Revenues	103.4	87.0	243.5	162.3	228.9
EBITDA	29.6	39.1	63.8	58.0	67.5
EBITDA (before non-recurring items)	29.6	39.1	63.8	45.1	55.9
EBIT	22.1	(1.0)	33.6	3.4	(15.3)
EBIT (before non-recurring items)	22.1	(1.0)	33.6	(13.8)	(25.1)
Net profit/(loss) for the period	13.7	(8.4)	9.0	(13.7)	(31.8)
Basic earnings/(loss) per share (USD)	0.027	(0.016)	0.017	(0.03)	(0.071)
Net cash flows from operating activities	28.3	0.4	39.0	(0.2)	11.3
Total assets (period end)	480.8	487.0	480.8	487.0	465.6
Total liabilities (period end)	393.3	390.8	393.3	390.8	387.3
Total Equity (period end)	87.4	96.2	87.4	96.2	78.3
Equity Ratio	18%	20%	18%	20%	17%
PP&E cash investment	8.6	2.9	10.8	80.5	82.2
Multi-client projects cash investment	-	2.3	-	18.1	18.7
Total cash (period end)	35.4	28.4	35.4	28.4	31.2
Net interest bearing debt (period end)	304.0	315.5	304.0	315.5	306.1

Financial Results (in accordance with IFRS)

Revenues

(In millions of USD)	Quarter ended 30-Sep-19	30-Sep-18	Nine months ended 30-Sep-19	30-Sep-18	Year ended 31-Dec-18
Contract revenue					
- Proprietary contracts	95.1	34.9	196.2	85.4	130.6
- Reimbursable	1.4	5.2	10.8	8.6	14.3
- Management fees	-	3.5	-	10.6	10.7
- Bare boat charter	6.8	6.8	20.3	20.3	27.1
	103.3	50.5	227.3	124.9	182.7
Multi-client revenue					
- Prefunding	-	32.3	8.2	32.3	40.8
- Late sales	-	4.2	3.6	4.3	4.5
	-	36.5	11.8	36.6	45.4
Other income	0.1	-	4.4	0.8	0.8
Total	**103.4**	**87.0**	**243.5**	**162.3**	**228.9**

Revenues increased by 19% in Q3 2019 to USD 103.4 million (Q3 2018: USD 87.0 million), driven by the increase in revenue from proprietary contracts.

Total proprietary contract revenue, including reimbursable revenue, increased to USD 96.5 million (Q3 2018: USD 40.1 million). This was driven by an increase of 155% in the day rates realised during the quarter. The increased revenue from improved day rates was partially offset by a reduction in the fleet utilization to 74% compared to 79% in Q3 2018 and by the absence of revenue from third party vessel management fees (USD 3.5 million in Q3 2018).

There was no revenue generated from multi-client projects during the quarter, compared to USD 36.5 million in Q3 2018 as a result of multiclient prefunding revenue recognized in accordance with IFRS 15 and multi-client late sales, both not related to the Company's vessel activity during Q3 2018.

Operating Expenses

	Quarter ended		Nine months ended		Year ended
(In millions of USD)	**30-Sep-19**	**30-Sep-18**	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Operating costs	61.8	39.8	165.4	118.6	165.2
Reimbursable cost	1.2	5.0	9.3	8.5	13.9
Gross cost of sales	**63.0**	**44.8**	**174.6**	**127.1**	**179.1**
Net deferred transit adjustment	7.7	-	(3.8)	-	-
Net movement in onerous contract provision	-	-	(1.0)	(5.5)	(5.5)
Capitalized to multi-client projects	-	-	-	(14.1)	(14.1)
Gain on termination of vessel operating lease	-	-	-	(13.9)	(13.9)
Net movement in bad debt provision	-	-	-	-	0.4
Cost of sales	**70.7**	**44.8**	**169.8**	**93.6**	**146.0**

Gross cost of sales in the quarter increased to USD 63.0 million (Q3 2018: USD 44.8 million), due to higher costs related to the multi-vessel 4D and wide-azimuth projects undertaken in the quarter. Reimbursable costs were USD 1.2 million (Q3 2018: USD 5.0 million). During the quarter, the Company expensed USD 7.7 million of previously deferred mobilization and transit costs as part of the projects undertaken in the quarter (nil transit costs expensed during Q3 2018). Cost of sales increased to USD 70.7 million (Q3 2018: USD 44.8 million).

General and administrative costs were USD 3.1 million during the quarter, the same level as in Q3 2018.

Depreciation and amortization

Depreciation and amortization during the quarter was USD 6.7 million (Q3 2018: USD 7.0 million). Amortization of multi-client projects decreased to USD 0.7 million (Q3 2018: USD 33.1 million).

Net profit and earnings per share

The Company recorded a net profit of USD 13.7 million in Q3 2019 (Q3 2018: loss of USD 8.4 million) and a basic and diluted EPS of USD 0.027 per share (Q3 2018: loss of USD 0.016 per share).

Cash flow and liquidity

Net cash flow from operating activities in the third quarter 2019 was USD 28.3 million (Q3 2018: USD 0.4 million). The net working capital movement, excluding movements related to IFRS 15 accounting, was negative USD 1.4 million in the quarter (Q3 2018: negative USD 9.2 million).

Net cash flow used in investing activities was USD 8.2 million (Q3 2018: net inflow of USD 1.2 million). The Company did not make any payments related to multi-client projects in Q3 2019 (Q3 2018: USD 2.3 million).

Net cash flow used in financing activities was USD 8.4 million (Q3 2018: USD 10.1 million). Interest paid during the quarter was USD 5.4 million (Q3 2018: USD 4.6 million). Repayment of interest-bearing debt in the quarter was USD 2.5 million (Q3 2018: USD 3.0 million).

The Company's cash and cash equivalents at the quarter end was USD 34.1 million (Q3 2018: USD 26.1 million). Total cash held at the quarter end was USD 35.4 million (Q3 2018: USD 28.4 million), including restricted cash of USD 1.2 million (Q3 2018: USD 2.3 million). The Company's USD 40 million working capital facility remained undrawn at the quarter end.

Vessel utilization

	Quarter ended		Nine months ended		Year ended
	30-Sep-19	**30-Sep-18**	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Utilization	**83%**	**86%**	**82%**	**85%**	**87%**
By category:					
Contract*	83%	86%	83%	78%	82%
Multi-Client	-	-	-	7%	5%
Transit	8%	12%	12%	12%	10%
Yard stay	6%	-	3%	-	1%
Standby	3%	2%	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.

Excluding the vessels on bare boat charters (and *Polarcus Nadia*), utilization for the Company's core fleet for the quarter was 74% (Q3 2018: 79%).

Interim consolidated statement of comprehensive income

(In thousands of USD)	Notes	Quarter ended 30-Sep-19	Quarter ended 30-Sep-18	Nine months ended 30-Sep-19	Nine months ended 30-Sep-18	Year ended 31-Dec-18
Revenues						
Contract revenue	3	103,267	50,506	227,323	124,867	182,746
Multi-client revenue	3	19	36,513	11,784	36,612	45,358
Other income		117	-	4,351	798	798
Total Revenues		**103,403**	**87,019**	**243,458**	**162,276**	**228,901**
Operating expenses						
Cost of sales	4	(70,744)	(44,825)	(169,807)	(93,581)	(146,027)
General and administrative costs		(3,082)	(3,119)	(9,802)	(10,709)	(14,169)
Onerous contracts		-	-	-	-	(1,160)
Depreciation and amortization	5	(6,727)	(6,963)	(19,673)	(19,277)	(26,647)
Multi-client amortization	6	(715)	(33,140)	(10,589)	(36,637)	(51,358)
Impairments		-	-	-	1,351	(4,878)
Total Operating expenses		**(81,268)**	**(88,047)**	**(209,871)**	**(158,853)**	**(244,240)**
Operating profit/(loss)		**22,135**	**(1,027)**	**33,587**	**3,423**	**(15,338)**
Finance costs	7	(8,695)	(7,917)	(25,311)	(25,694)	(33,478)
Finance income		230	573	709	1,494	1,842
Changes in fair value of financial instruments		-	-	-	479	479
Gain on financial restructuring		-	-	-	6,398	14,517
		(8,465)	**(7,344)**	**(24,602)**	**(17,323)**	**(16,641)**
Profit/(loss) before tax		**13,670**	**(8,372)**	**8,985**	**(13,899)**	**(31,979)**
Income tax expense		-	-	(13)	191	191
Net profit/(loss) and total comprehensive income/(loss)		**13,670**	**(8,372)**	**8,972**	**(13,708)**	**(31,788)**
Earnings per share attributable to the equity holders during the period *(In USD)*						
- Basic		0.027	(0.016)	0.017	(0.032)	(0.071)
- Diluted		0.027	(0.016)	0.017	(0.032)	(0.071)

Interim consolidated statement of financial position

(In thousands of USD)	Notes	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Assets				
Non-current Assets				
Property, plant and equipment	8	362,573	382,013	369,629
Multi-client project library	6	1,289	26,893	12,160
Right-of-use assets	9	1,814	-	-
Total Non-current Assets		**365,676**	**408,906**	**381,789**
Current Assets				
Receivable from customers		64,859	34,029	39,583
Other current assets		14,893	15,704	13,132
Restricted cash		1,207	2,311	1,153
Cash and bank		34,147	26,071	30,005
Total Current Assets		**115,106**	**78,114**	**83,873**
Total Assets		**480,782**	**487,020**	**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		26,132	25,774	25,961
Retained earnings/(loss)		(625,983)	(616,875)	(634,955)
Total Equity		**87,434**	**96,184**	**78,291**
Non-current Liabilities				
Interest bearing debt	10	324,623	334,116	325,500
Lease liabilities	9	727	-	-
Total Non-current Liabilities		**325,350**	**334,116**	**325,500**
Current Liabilities				
Interest bearing debt	10	13,600	8,600	10,600
Lease liabilities	9	1,034	-	-
Provisions		117	-	1,160
Accounts payable		18,484	14,057	21,417
Other accruals and payables		34,763	34,063	28,694
Total Current Liabilities		**67,998**	**56,720**	**61,871**
Total Equity and Liabilities		**480,782**	**487,020**	**465,662**

Interim consolidated statement of cash flows

(In thousands of USD)	Notes	Quarter ended 30-Sep-19	Quarter ended 30-Sep-18	Nine months ended 30-Sep-19	Nine months ended 30-Sep-18	Year ended 31-Dec-18
Cash flows from operating activities						
Profit/(loss) for the period		13,670	(8,372)	8,972	(13,708)	(31,788)
Adjustment for:						
Depreciation and amortization	5	6,727	6,963	19,673	19,277	26,647
Multi-client amortization	6	715	33,140	10,589	36,637	51,358
Impairments		-	-	-	(1,351)	4,878
Gain on sale of assets	6	(117)	-	(117)	-	-
Changes in fair value of financial instruments		-	-	-	(479)	(479)
Employee share option expenses		125	115	171	403	589
Interest expense	7	8,510	7,624	24,873	24,106	31,660
Interest income		(70)	(83)	(294)	(289)	(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		103	179	203	263	281
Net movements in provisions	4	-	-	(1,043)	(5,489)	(4,329)
Net working capital movements		(1,402)	(39,117)	(24,018)	(39,216)	(38,671)
Net cash flows from operating activities		**28,260**	**449**	**39,009**	**(151)**	**11,327**
Cash flows from investing activities						
Payments for property, plant and equipment		(8,623)	(2,948)	(10,826)	(80,511)	(82,184)
Payments for multi-client library		-	(2,308)	-	(18,126)	(18,667)
Proceeds from sale of multi-client library		400	6,500	400	6,500	6,500
Net cash flows from/(used in) investing activities		**(8,223)**	**1,244**	**(10,426)**	**(92,137)**	**(94,351)**
Cash flows from financing activities						
Proceeds from the issue of ordinary shares		-	-	-	43,021	43,021
Transaction costs on issue of shares		-	-	-	(1,719)	(1,719)
Net receipt from bank loans		-	-	-	82,672	82,672
Repayment of interest bearing debt		(2,550)	(2,978)	(8,850)	(13,325)	(15,475)
Lease liabilities paid	9	(189)	-	(562)	-	-
Interest paid		(5,400)	(4,633)	(14,346)	(12,701)	(16,785)
Financial restructuring fees paid		-	-	-	(3,856)	(3,856)
Other finance costs paid		(310)	(339)	(761)	(793)	(1,149)
Decrease/(Increase) in restricted cash		(24)	(2,204)	(54)	5,506	6,664
Security deposit related to currency swaps		-	-	-	1,370	1,370
Paid towards liability under currency swaps		-	-	-	(7,672)	(7,672)
Interest received		70	83	294	289	397
Net cash flows from/(used in) financing activities		**(8,404)**	**(10,072)**	**(24,279)**	**92,793**	**87,469**
Effect of foreign currency revaluation on cash		(80)	(179)	(162)	(280)	(286)
Net increase/(decrease) in cash and cash equivalents		**11,553**	**(8,557)**	**4,142**	**225**	**4,159**
Cash and cash equivalents at the beginning of the period		22,594	34,628	30,005	25,846	25,846
Cash and cash equivalents at the end of the period		**34,147**	**26,071**	**34,147**	**26,071**	**30,005**

Interim consolidated statement of changes in equity

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 income 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 nine months ended 30 September 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 loss for the period		-	-	-	(13,708)	(13,708)
Employee share based incentives		-	-	403	-	403
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 September 2018	**513,786,713**	**51,379**	**635,906**	**25,774**	**(616,875)**	**96,184**

*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 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 nine months ended 30 September 2019 were authorized for issue in accordance with a resolution of the Board of Directors passed on 04 November 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 nine months ended 30 September 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.

Three of the Company's core vessels are fully booked to Q2 2020, while one vessel has available capacity in Q4 2019. This may lead to some idle time during Q4 2019 reflecting the focus on prioritizing projects with superior margins and appropriate contract terms. Pricing levels of recent awards reflect an improvement in the global marine acquisition market. The Company's backlog at 30 September 2019 and value of awards announced after the quarter end is estimated at USD 145 million.

2 Basis of presentation

These interim consolidated financial statements for the quarter and nine months ended 30 September 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 30-Sep-19			Quarter ended 30-Sep-18		
(In thousands of USD)	**Segment**	**Adjustments[1]**	**As reported**	**Segment**	**Adjustments[2]**	**As reported**
Revenues						
Contract revenue	103,267	-	103,267	50,506	-	50,506
Multi-client prefunding	-	-	-	482	31,816	32,298
Multi-client late sales	19	-	19	4,215	-	4,215
Other income	117	-	117	-	-	-
Total Revenues	**103,403**	**-**	**103,403**	**55,203**	**31,816**	**87,019**
Cost of sales	(70,744)	-	(70,744)	(44,825)	-	(44,825)
General and administrative costs	(3,082)	-	(3,082)	(3,119)	-	(3,119)
EBITDA	**29,578**	**-**	**29,578**	**7,259**	**31,816**	**39,075**
Depreciation and amortization	(6,727)	-	(6,727)	(6,963)	-	(6,963)
Multi-client amortization	(715)	-	(715)	(1,189)	(31,951)	(33,140)
Operating profit/(loss) (EBIT)	**22,136**	**-**	**22,136**	**(893)**	**(135)**	**(1,028)**
Net financial expense	(8,466)	-	(8,466)	(7,344)	-	(7,344)
Profit/(loss) before tax	**13,670**	**-**	**13,670**	**(8,237)**	**(135)**	**(8,372)**

	Nine months ended 30-Sep-19			Nine months ended 30-Sep-18		
(In thousands of USD)	**Segment**	**Adjustments[1]**	**As reported**	**Segment**	**Adjustments[2]**	**As reported**
Revenues						
Contract revenue	227,323	-	227,323	124,867	-	124,867
Multi-client prefunding	55	8,106	8,161	13,789	18,509	32,298
Multi-client late sales	3,622	-	3,622	4,314	-	4,314
Other income	4,351	-	4,351	798	-	798
Total Revenues	**235,351**	**8,106**	**243,457**	**143,767**	**18,509**	**162,276**
Cost of sales	(169,807)	-	(169,807)	(107,488)	13,907	(93,581)
General and administrative costs	(9,802)		(9,802)	(9,654)	(1,054)	(10,709)
EBITDA	**55,742**	**8,106**	**63,848**	**26,625**	**31,361**	**57,986**
Depreciation and amortization	(19,673)	-	(19,673)	(19,277)	-	(19,277)
Multi-client amortization	(2,428)	(8,161)	(10,589)	(21,329)	(15,308)	(36,637)
Impairments	-	-	-	-	1,351	1,351
Operating profit/(loss) (EBIT)	**33,642**	**(55)**	**33,586**	**(13,981)**	**17,404**	**3,423**
Net financial expense	(24,602)	-	(24,602)	(23,721)	6,399	(17,322)
Profit/(loss) before tax	**9,040**	**(55)**	**8,984**	**(37,702)**	**23,803**	**(13,899)**

	Year ended 31-Dec-18		
(In thousands of USD)	**Segment**	**Adjustments²**	**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**
Cost of sales	(159,934)	13,907	(146,027)
General and administrative costs	(13,115)	(1,054)	(14,169)
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

	Quarter ended		Nine months ended		Year ended
(In thousands of USD)	**30-Sep-19**	**30-Sep-18**	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Operating costs	61,760	39,817	165,370	118,615	165,154
Reimbursable cost	1,218	5,008	9,262	8,470	13,946
Gross cost of sales	**62,978**	**44,825**	**174,632**	**127,085**	**179,100**
Net deferred transit adjustment	7,766	-	(3,782)	-	-
Onerous contract provision unwinding	-	-	(1,043)	(5,489)	(5,489)
Capitalized to multi-client projects	-	-	-	(14,108)	(14,108)
Gain on termination of vessel operating lease	-	-	-	(13,907)	(13,907)
Bad debt provision	-	-	-	-	430
Cost of sales	**70,744**	**44,825**	**169,807**	**93,581**	**146,027**

5 Depreciation and amortization

	Quarter ended		Nine months ended		Year ended
(In thousands of USD)	**30-Sep-19**	**30-Sep-18**	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Depreciation of seismic vessels and equipment	6,443	6,947	18,825	20,081	27,369
Depreciation of office equipment	42	16	127	51	134
Amortization of Right-of-use assets	242	-	721	-	-
Depreciation capitalized to multi-client library	-	-	-	(856)	(856)
Total	**6,727**	**6,963**	**19,673**	**19,277**	**26,647**

6 Multi-client project library

	Quarter ended		Nine months ended		Year ended
(In thousands of USD)	**30-Sep-19**	**30-Sep-18**	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Balance at the beginning of the period	2,287	65,619	12,160	51,317	51,317
Investments during the period	-	914	-	16,507	16,495
Capitalized depreciation	-	-	-	856	856
Sale of multi-client library	(283)	(6,500)	(283)	(6,500)	(6,500)
Amortization	(715)	(33,140)	(10,588)	(36,637)	(51,358)
Impairments	-	-	-	1,351	1,351
Balance at the period end	**1,289**	**26,893**	**1,289**	**26,893**	**12,160**

6.1 Amortization of multi-client library

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

During the nine months ended 30 September 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 2.4 million during the nine months ended 30 September 2019 represents the straight-line amortization recognised on two multi-client projects.

6.2 Sale of multi-client library

During the quarter ended 30 September 2019, the Company sold one of its two remaining 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 in the quarter.

7 Finance costs

	Quarter ended		Nine months ended		Year ended
(In thousands of USD)	**30-Sep-19**	**30-Sep-18**	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Interest expenses on bond loans	3,360	3,520	9,919	9,837	11,639
Interest expenses on other interest bearing debt	4,833	3,765	14,171	13,476	18,873
Interest expense on leases	7	-	22	-	-
Net interest expenses	**8,200**	**7,285**	**24,112**	**23,313**	**30,512**
Other finance costs	310	339	761	793	1,149
Currency exchange losses	185	292	438	1,587	1,818
Total	**8,695**	**7,917**	**25,311**	**25,694**	**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	11,897	-	11,897
Balance as at 30 September 2019	1,069,892	3,577	1,073,469
Depreciation and impairments			
Balance as at 1 January 2019	688,835	3,108	691,943
Depreciation for the period	18,825	127	18,952
Balance as at 30 September 2019	707,660	3,235	710,895
Carrying amounts			
As at 1 January 2019	369,160	469	369,629
As at 30 September 2019	**362,232**	**342**	**362,573**
Pledged assets as at 30 September 2019	357,527	-	357,527

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

	Quarter ended		Nine months ended		Year ended
(In thousands of USD)	**30-Sep-19**	**30-Sep-18**	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Initial measurement					
Net present value of lease liabilities	2,056	-	2,323	-	-
Initial direct costs	-	-	27	-	-
Prepaid leases	-	-	186	-	-
Balance at the beginning of the period	**2,056**	-	**2,535**	-	-
Depreciation	(242)	-	(721)	-	-
Balance at the period end	**1,814**	-	**1,814**	-	-

9.2 Lease liabilities

	Quarter ended		Nine months ended		Year ended
(In thousands of USD)	**30-Sep-19**	**30-Sep-18**	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Balance at the beginning of the period	1,950	-	2,323		
Lease payments during the period	(189)	-	(562)	-	-
Interest expense on leases	7	-	22	-	-
Interest on leases paid	(7)	-	(22)	-	-
Balance at the period end	**1,761**	-	**1,761**	-	-
Of which:					
Current liability portion	1,034	-	1,034	-	-
Non-current liability	727	-	727	-	-

10 Interest bearing debt

	Nominal outstanding value	Carrying values as at		
(In thousands of USD)	**30-Sep-19**	**30-Sep-19**	**30-Sep-18**	**31-Dec-18**
Bond loans				
125M USD secured, convertible bonds - Tranche A	63,280	21,229	24,101	20,047
125M USD convertible bonds - Tranche B	3,555	1,225	562	730
95M USD unsecured bonds	9,827	4,194	2,490	2,916
350M NOK unsecured bonds	5,886	2,730	1,593	1,877
Total bond loans	**82,548**	**29,377**	**28,746**	**25,570**
Other interest bearing debt				
Fleet bank facility - Tranche 1	41,324	39,888	40,004	39,290
Fleet bank facility - Tranche 2	35,773	36,143	34,717	36,085
Fleet bank facility - Tranche 3	76,865	75,464	77,877	78,003
Fleet bank facility - Tranche 4	86,045	79,762	82,743	78,282
New Fleet Facility for N-Class vessels	74,945	71,925	70,970	71,210
DNB loan facility	5,672	5,664	7,659	7,660
Total other interest bearing debt	**320,624**	**308,846**	**313,971**	**310,529**
Total Interest bearing debt	**403,171**	**338,223**	**342,716**	**336,100**
Of which:				
Current liability portion		13,600	8,600	10,600
Non-current liability		324,623	334,116	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 nine months ended 30 September 2019 the Company paid USD 0.4 million and USD 0.6 million respectively to Zickerman Group DMCC for consultancy services (USD 0.1 million and USD 0.3 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.