



Spectrum ASA

1st Quarter 2009

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2009 Summary

	<u>Q1</u>
Revenue	US\$13.59m
EBITDA	US\$2.31m
Cash Balance	US\$6.56m

- GGS Atlantic revenue was US\$6.10m
- Despite strong Multi Client sales of Eastern Mediterranean data sets divisional revenue fell to \$3.53m
- On board processing increased total data processing revenue to \$3.96m
- Positive cash inflows from year end sales activity

FIRST QUARTER REPORT FOR SPECTRUM ASA

Spectrum is engaged in three main business activities, seismic data processing, seismic data acquisition and the planning, compilation and licensing of multi-client seismic surveys.

As the markets predicted Q1 has been particularly challenging with Exploration & Production expenditure (E&P) being delayed or withdrawn by many international and national oil companies which has subsequently led to reduced activity in the seismic markets.

These results have been produced against a background of unaudited financial accounts which may result in changes to the opening balance sheet of the group.

Purchase Price Allocation in connection with the purchase of the seismic business in June 2008 has now been finalized. The goodwill and data libraries have been independently reviewed and the company impaired the data libraries by US\$8.8m in December 2008. No additional impairments to assets were made in first quarter.

The audited annual accounts for 2008 will be released on 5th June 2009.

PROFIT AND LOSS

The company was incorporated on 28 March 2008; the trading activity of the group began on 1 July 2008 following the acquisition of the seismic business operations of Global Geo Services ASA (GGS), as a consequence no comparative figures are provided.

Group revenues (external) for the first quarter were US\$13.59m which were slightly ahead of the figures for both Q3 and Q4 2008.

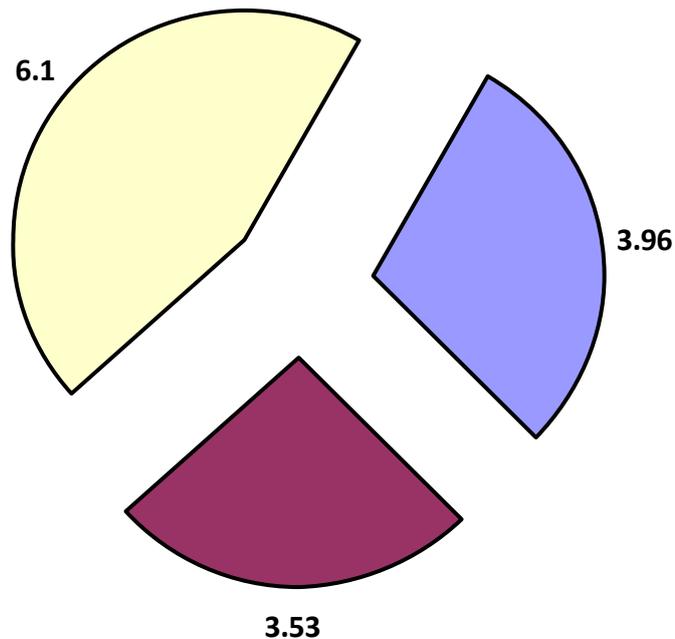
The sales mix from multi client in the quarter has led to higher than expected operational costs as both partner share and amortisation costs have increased in line with contractual obligations.

Group EBITDA of US\$2.31m was achieved before charging US\$1.23m for amortisation and a provision of US\$0.75m associated with the on board processing contracts coming to an end.

Spectrum has not taken any additional impairment charges against either goodwill or the value of the libraries during Q1 2009.

Spectrum was named as joint defendant in a court case by a former majority owner and board member of GGS which resulted in findings against the company. No costs have been charged to profit and loss as all liabilities under the judgment are covered by GGS.

Q1 Revenue split by business activity (US\$m's)



■ Data Processing ■ Multi Client ■ Marine Acquisition

BALANCE SHEET

The total equity of the company is US\$59.8m split between intangible assets of US\$29.1m, tangible assets of US\$4.9m, financial assets of US\$1.7m and current assets of US\$24.1 which are funded by equity of US\$23.3m, long term liabilities of US\$30.0m and current liabilities of US\$6.5m

There have been no material additions to intangible assets in the quarter. The on-going rollout of Claritas during Q1 and small computer enhancements resulted in additional capital expenditure of US\$154k.

Cash balances and equivalents rose by US\$1.95m to US\$6.56 as strong cash flows from late December 2008 sales and measures designed to conserve cash which were implemented in Q1. Accounts receivable remain high and Spectrum is aggressively collecting the monies due. A small provision has previously been taken against non-payment and all accounts are

closely monitored in case of potential default. The company considers it has sufficient liquidity to meet its ongoing operational obligations.

Long term debt of US\$23.0m is predominately made up of a loan from GGS of US\$22.9m (MNOK150) to part fund the acquisition of the seismic assets purchased at 30th June 2008. The loan attracts interest payable quarterly in arrears at a rate of NIBOR 3-months +300 bps and is repayable in December 2011, the terms of the loan express that no dividends can be paid. Other long term liabilities of US\$3.8m include accruals for the GGS Atlantic dry docking scheduled under her planned maintenance program.

The short term liabilities are US\$6.5m representing an increase of US\$1.0m in accruals and accounts payables predominately to partners for revenue splits, this increase reflects the high costs associated with the sales mix in the quarter.



DIVISIONAL OPERATIONAL UPDATES

SEISMIC DATA PROCESSING

Seismic data processing services are provided from processing centers in UK, US, China, Egypt and offshore India. 2D and 3D processing is undertaken for a range of National and International oil companies in both time and depth. One of the core strengths of Spectrum is the average of 14 years experience of our processing geophysicists coupled with the combination of proprietary and third party seismic processing software. All centers are connected with a high speed Virtual Private Network which facilitates continuous support from the primary computer centre in Houston, Texas.

Spectrum is operating on-board data processing services on two independent seismic vessels working offshore India as well as the GGS Atlantic. The end customer for the external work is ONGC and the backlog under this contract has been reduced in line with expectations.

On-board processing revenues are ahead of expectations as the accumulated backlog has been processed faster than anticipated. On shore based data processing revenue has been particularly hard hit by the down turn with the reduced number of new contracts experiencing downward pressure on margins. Spectrum continues to increase its profile in all geographic markets and raise awareness of its technical abilities.

In addition to the external processing undertaken, the data processing geophysicists have been working on a number of internal projects for the multi-client team which had a market based internal revenue equivalent to \$735k during the period.

MULTI CLIENT

Spectrum's multi-client library is composed of data and reports from many of the major oil producing regions. The library includes newly acquired data as well as reprocessing of existing surveys. The library is comprised of more than 40 surveys with a total of more than 200,000km of 2D data. The library is replenished and continually enhanced with the

addition of new projects and the reprocessing of older components. Spectrum's multi-client teams are based in UK, US and a recently established office in Singapore.

The recent announcement by Noble Energy of gas discoveries offshore Israel has led to increased level of interest in the 20,000kms of Eastern Mediterranean data held by Spectrum. In Q1 this resulted in 2 significant sales with additional prospects for Q2. Spectrum completed the processing of a new survey from the Mayen ridge area of Iceland ahead of the bid round during Q1 which was well received and has contributed to Multi Client revenue.

The Multi Client division produced slightly disappointing revenues in the quarter but due to their nature sales tend to be lumpy with relatively short term visibility. The strong revenue generated in December was not repeated in Q1. The same pressure on utilization of customer budgets in December is typically not experienced in Q1.

Accounting principles - The multi-client library comprises completed seismic surveys and projects under development that can be licensed to a number of customers. The multi-client library is capitalised at cost less accumulated impairment losses and amortisation. Amortisation is a percentage of the book value by comparing the value of actual revenue in the period to the total forecast revenue of each project. In addition, the Group has a minimum amortisation policy where the carrying amount one year after completion is at a maximum 60% of cost. This maximum level is reduced by 20 percentage points for each of the three subsequent years.

MARINE ACQUISITION

On 31st December 2008, GXT exercised their contractual option to give 90 days' notice for the charter of the GGS Atlantic and Spectrum completed acquiring the West Coast Span India program at the end of January.

The vessel subsequently mobilized to the East Coast of India to re-commence acquiring data for Global Geo Services ASA, under the extension to its contract with Reliance Industries Ltd. under the terms of an extension to a previously held contract and negotiated during the purchase of the seismic business from GGS in June 2008.

Marine acquisition revenue was in line with expectations for the quarter at US\$6.37m. It is recognized that this market is very competitive during the current market conditions and a number of external opportunities are being aggressively pursued.



SUBSEQUENT EVENTS

At the end of April, Spectrum reduced headcount throughout its worldwide operations, the changes made ensure that all the company's key competencies are retained while producing annualized savings in excess of \$750k.

On 12th May the GGS Atlantic completed the acquisition of the outstanding 4,400km of 2D seismic data offshore the East Coast of India thereby fulfilling its contractual obligations to GGS. The Atlantic is currently being mobilised to the Eastern Gulf of Mexico to acquire a 12,000km survey as part of Spectrum's Big Wave Multi Client program. Despite the global economic downturn and widespread market expectations of a drop in expenditure in 2009, this project is over 75% pre funded. It is anticipated that the newly acquired data will be processed by Spectrum's Houston data processing centre for delivery towards the end of 2009. The data processing sequence will include both Kirchhoff and Wave Equation pre stack depth migration (PSDM).



FUTURE PROSPECTS

Despite the recent modest increase in the price of oil, the global economic downturn coupled with the widespread market expectations continues to see pressure on expenditure in 2009. However the seismic industry is cyclical and their remains long term attractions for the seismic sector as the oil industry in general meets the challenges of matching oil supply with demand.

Against this backdrop, Spectrum remains focused on securing new data processing contracts for its processing centers, while the current on-board processing contracts are expected to finish in late June data processing margins will be put under increasing pressure. It is anticipated that ONGC will release the tender for the next contracts during Q3 and we will use the experience gained over the last 15 months to try and gain a competitive advantage during this process.

The GGS Atlantic has been mobilized from India to the Eastern Gulf of Mexico to acquire Big Wave Phase 2 for our Multi client business unit. The Phase 2 program has been designed to enhance our already strong reputation in the Eastern Gulf of Mexico and consequently Spectrum has secured significant pre-funding for the project. The acquisition and processing of this data is scheduled for completion by the end of December 2009. Follow on work for the GGS Atlantic is being sought to maintain continuity of revenue. It is recognized that offshore acquisition is very competitive during the current market conditions hence the decision to mobilise the GGS Atlantic to the Gulf of Mexico rather than subcontract, a third party vessel.

In addition, Spectrum continues to capitalise on its expertise of evaluating targeted multi-client investment projects with a high level of pre-funding and securing new low risk re-processing opportunities. There are a number of such opportunities that are reaching latter stages of evaluation. The processing of some existing re-processing projects will be completed during Q2 and Q3 adding to Spectrum's extensive worldwide library.

The executive management of Spectrum is continually reviewing operational costs with the aim of conserving cash and enhancing earnings. Spectrum remains in a position to profitably leverage any strategic opportunities that are provided in an uncertain market.

The current strength of the Multi Client prospect list together, the mobilisation of the GGS Atlantic to Gulf of Mexico, enables the Board to continue to adopt a cautious but positive outlook for the Group's future activities.

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These condensed consolidated interim financial statements are prepared in accordance with the rules and regulations of the Oslo Axess Stock Exchange and International Financial Reporting Standard (IFRS) IAS 34, 'Interim Financial Reporting'. The accounting principles adopted in the preparation of these interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements. They are unaudited.

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All statements in this earnings release other than statements of historical fact are forward-looking statements which involve known and unknown risks, uncertainties and other factors which may cause Spectrum's actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements.

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CONDENSED INCOME STATEMENT (UNAUDITED)

Spectrum ASA  
Group Consolidated Income Statement

| (US\$000's)                         | Quarter<br>ended<br>31.03.09 |
|-------------------------------------|------------------------------|
| Revenue                             | 13,589                       |
| Operating expenses                  | (11,279)                     |
| <b>EBITDA</b>                       | <b>2,310</b>                 |
| Depreciation/ amortization          | (1,723)                      |
| <b>EBIT</b>                         | <b>587</b>                   |
| Interest expense, net               | (437)                        |
| Foreign exchange loss               | (1,056)                      |
| Other financial items               | 2                            |
| <b>Profit before tax</b>            | <b>(904)</b>                 |
| Tax expense                         | (18)                         |
| <b>Net profit to equity holders</b> | <b>(922)</b>                 |
| Earning per share                   | (0.11)                       |
| Diluted earnings per share          | (0.11)                       |
| Basic shares outstanding average    | 8,106,452                    |
| Diluted shares outstanding average  | 8,106,452                    |

Spectrum ASA  
Group Consolidated Statement of Comprehensive Income

| (US\$000's)                                                             | Quarter<br>ended<br>31.03.09 |
|-------------------------------------------------------------------------|------------------------------|
| Net profit                                                              | (922)                        |
| Exchange differences on translation of foreign operations               | 1,171                        |
| <b>Comprehensive income for the period net of tax to equity holders</b> | <b>249</b>                   |

CONDENSED BALANCE SHEET (UNAUDITED)

Spectrum ASA  
Group Consolidated Balance Sheet

| (US\$000's)                                       | 31.03.09 |
|---------------------------------------------------|----------|
| <b>Assets</b>                                     |          |
| <b>Non-current assets</b>                         |          |
| <b>Intangible assets</b>                          |          |
| Goodwill                                          | 8,356    |
| Software                                          | 5,004    |
| Multi-client library, net                         | 15,773   |
| Total intangible assets                           | 29,133   |
| <b>Tangible assets</b>                            |          |
| Machinery and equipment                           | 2,898    |
| Fixtures, Fittings & Office Equipment             | 2,084    |
| Total tangible assets                             | 4,982    |
| <b>Financial assets</b>                           |          |
| Investment in joint ventures                      | 1,683    |
| Other investments                                 | -        |
| Total financial assets                            | 1,683    |
| <b>Total non-current assets</b>                   | 35,798   |
| <b>Current assets</b>                             |          |
| Inventory                                         | 1,718    |
| Accounts receivable                               | 15,028   |
| Other receivables                                 | 758      |
| Total receivables and inventory                   | 17,504   |
| Cash and cash equivalents                         | 6,565    |
| <b>Total current assets</b>                       | 24,069   |
| <b>Total assets</b>                               | 59,867   |
| <b>Shareholders' Equity and Liabilities</b>       |          |
| <b>Shareholders' equity</b>                       |          |
| Share capital                                     | 1,596    |
| Share premium reserve                             | 27,944   |
| Other equity reserves                             | (6,202)  |
| Total equity                                      | 23,338   |
| <b>Liabilities</b>                                |          |
| <b>Long term liabilities</b>                      |          |
| Deferred tax liability                            | 3,176    |
| Long term debt                                    | 23,002   |
| Other liabilities                                 | 3,875    |
| Total long term liabilities                       | 30,053   |
| <b>Current liabilities</b>                        |          |
| Short term debt                                   | 646      |
| Payable tax                                       | (914)    |
| Other liabilities                                 | 6,744    |
| Total current liabilities                         | 6,476    |
| <b>Total shareholders' equity and liabilities</b> | 59,867   |

## EQUITY RECONCILIATION (UNAUDITED)

Spectrum ASA  
Changes in Group Consolidated Equity

| (US\$000's)                    | Issued<br>Capital | Share<br>Premium | Retained<br>Earnings | Other<br>Capital<br>Reserves | Total<br>Equity |
|--------------------------------|-------------------|------------------|----------------------|------------------------------|-----------------|
| Balance @ start of period      | 1,596             | 27,944           | (2,125)              | (4,326)                      | 23,089          |
| Profit for period              | -                 | -                | (922)                | -                            | (922)           |
| Other comprehensive income     | -                 | -                | (6)                  | 1,177                        | 1,171           |
| <b>Balance @ end of period</b> | <b>1,596</b>      | <b>27,944</b>    | <b>(3,053)</b>       | <b>(3,149)</b>               | <b>23,338</b>   |

## CONDENSED CASHFLOW STATEMENT (UNAUDITED)

Spectrum ASA  
Group Consolidated Cash Flows Statement

| (US\$000's)                                      | Quarter<br>ended<br>31.03.09 |
|--------------------------------------------------|------------------------------|
| Cash flows from operating activities:            |                              |
| Profit before tax                                | (922)                        |
| Depreciation and amortisation                    | 1,723                        |
| Interest expense, net                            | 437                          |
| Share of loss of associated undertakings         | -                            |
| Working capital changes                          | (380)                        |
| Net cash flow from operating activities          | 858                          |
| Cash flows from investing activities:            |                              |
| Investment in multi-client library – new         | (355)                        |
| Investment in tangible assets                    | (154)                        |
| Net cash flow from investing activities          | (509)                        |
| Cash flows from financing activities:            |                              |
| Loan interest paid                               | (437)                        |
| Net cash from financing activities               | (437)                        |
| Net change in cash and cash equivalents          | (88)                         |
| Net foreign exchange differences (unrealised)    | 2,040                        |
| Cash and cash equivalents @ start of period      | 4,613                        |
| <b>Cash and cash equivalents @ end of period</b> | <b>6,565</b>                 |

## Notes to the condensed interim financial statements

### Note 1 - General information

Spectrum (the Spectrum Group) consists of Spectrum ASA (the Company), its subsidiaries and associated undertakings. Spectrum ASA was established on 28 March 2008 as a limited company incorporated in Norway, with a share capital of 1,000,000 shares, each of nominal value of NOK 1. The address of the Company's registered office is Sjølyst plass 2, 0278 Oslo.

On 27 June 2008 the Company successfully placed its share offerings amongst new shareholders. The offering comprised 8,052,767 shares, with a subscription price of NOK 18.63 per share.

On 30 June 2008, the Company acquired the seismic business operations of GGS. The final purchase consideration is still being allocated between individual asset categories and the final level of goodwill.

On 1 July 2008, the Company listed its shares on the Oslo Axess Stock Exchange.

### Note 2 – Accounting policies

The principal accounting policies applied by the Spectrum in the preparation of these condensed consolidated interim financial statements are set out below.

#### Basis of preparation

These condensed consolidated interim financial statements are the first financial statements of the newly formed Spectrum Group and have been prepared in accordance with the rules and regulations of the Oslo Axess Stock Exchange and International Financial Reporting Standard (IFRS) IAS 34, 'Interim Financial Reporting'. They do not include all of the information required for full annual consolidated financial statements, and are unaudited.

The Spectrum Group consists of:

| Company                              | Relationship          | Method of consolidation |
|--------------------------------------|-----------------------|-------------------------|
| Spectrum UK Limited                  | subsidiary – 100%     | Full consolidation      |
| Spectrum US Inc                      | subsidiary – 100%     | Full consolidation      |
| Spectrum China Inc                   | subsidiary – 100%     | Full consolidation      |
| Spectrum-Geopex Egypt Limited        | joint venture – 50%   | Equity accounting       |
| Napsco-Spectrum-Geopex Libya Limited | joint venture – 32.5% | Equity accounting       |
| GeoBridge Pte Limited                | joint venture – 50%   | Equity accounting       |

#### Principles of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries and Spectrum's interest in equity accounted joint ventures as at 31<sup>st</sup> December 2008. The reporting period of subsidiaries coincides with that

of the group, and the financial statements of the subsidiaries are prepared using accounting policies consistent with the group's policies.

All intra-group balances, income and expenses resulting from intra-group transactions are eliminated in full.

#### *Subsidiaries*

A subsidiary is defined as an entity where Spectrum ASA directly or indirectly has an ownership of more than 50% of the voting rights and is exercising financial and operational control over the entity. The subsidiaries are consolidated in full from the date on which the control was obtained by the group and are no longer consolidated from the date when control ceases. Acquisitions are accounted for using the purchase method. The purchase price is allocated to acquired assets and liabilities using fair value on the acquisition date. Any value exceeding fair value of identified assets and liabilities is recognized as goodwill.

#### *Joint Ventures*

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are accounted for using equity method in accordance with IAS 31, 'Interest in joint ventures', where consolidated financial statements include the group's share of profit and loss from the date on which joint control is attained and until such control ceases.

#### *Subsidiaries with functional currency other than US\$*

The balance sheets of subsidiaries with functional currency other than US\$ are translated into US\$ at the rate prevalent on the balance sheet date. The income statement items are translated at the average period exchange rates. Exchange rate differences arising from the translation of financial statements of such subsidiaries are reflected in a separate component of the shareholders' equity.

#### **Revenue Recognition**

Revenue is recognized when it is probable that the economic benefits from a transaction will flow to Spectrum and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, net of discounts and sales taxes or duties. The following describes the specific principles:

#### *Acquisition*

Revenue is recognized for sales of units of work completed according to the terms of each particular agreement.

#### *Seismic data processing*

Revenue from seismic data processing is recognized in the same way as work in progress (percentage completion) according to the specific agreement.

### *Multi-client surveys*

Revenue is recognized for sales of finished data at the time of the transaction; i.e. when the client has gained access to the data under a binding agreement.

### *Work in progress*

Revenue from work in progress (unfinished projects) at the balance sheet date is recognized on a percentage completion basis under binding contracts, normally measured according to the acquired and processed volume of data in relation to the estimated total size of the project.

## **Income taxes**

### *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by balance sheet date.

### *Deferred income tax*

Deferred income tax is provided using the liability method on all temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## **Tangible non-current assets and principles of depreciation**

Tangible non-current assets are presented at historical cost less accumulated depreciation and impairment charges. If an indication of impairment exists an impairment test is performed. If the fair value of a non-current asset is lower than book value, the asset will be written down to the higher of fair value less cost to sell and value in use. Depreciation is determined in the life of an asset's useful life, varying from 3 to 7 years. Depreciation begins when assets are available for use.

## **New standards and interpretations**

The following new standards, amendments to standard or interpretations are mandatory for the first time for financial year beginning 1 January 2008 but are not currently relevant for the Spectrum Group.

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'
- IFRIC 12, 'Service concession agreements'
- IFRIC 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'.

The following new standards, amendments to standard or interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. Management is in the process of assessing the impact.
- IAS 23 (amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009.

- IFRS 2 (amendment), 'Share-based payment', effective for annual periods beginning on or after 1 January 2009. This is currently not relevant to Spectrum, as there are no share-based payments.
- IFRS 3 (amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interest in joint ventures', effective prospectively to business combinations with the acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- IAS 1 (amendment), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.
- IAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to Spectrum, as there are no puttable instruments.
- IFRIC 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. This is not relevant to Spectrum, as there are no such schemes in place.

### **Accounting judgments, estimates and assumptions**

In the process of preparing financial statements, management is required to apply judgment, make estimates and assumptions that affect the amounts reported in the statements and accompanying notes. Management bases their estimates and assumptions on historical experience and other factors that believed to be reasonable under the circumstances. These estimates are the basis for judging the carrying value of assets and liabilities that do not appear directly from other sources. Actual results may differ from these estimates. The key sources of judgment and estimation of uncertainty at the balance sheet date and that have a significant risk of causing a material adjustment to the carrying amounts of these assets and liabilities within the next financial year, are discussed below.

#### *Acquisition of Subsidiaries*

Assets and liabilities acquired in the business combination are to be recognized at their fair value on the acquisition date according to IFRS 3. This requires an estimation of the fair value of individual assets, liabilities and contingent liabilities acquired, with the estimation of future cash flows from revenue generating units and discount rate to calculate the net present value of those cash flows.

#### *Multi-client library amortisation*

Amortisation is calculated as a percentage of the book value by comparing the value of actual revenue in the period to the total forecast revenue of each part of the library. The assumptions behind the total forecast revenue are based upon management assumptions.

## **Intangible assets**

### *Business combinations and goodwill*

Business combinations are accounted for using the purchase method, which requires recognition of identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) acquired at the fair value. Goodwill acquired in the business combination is initially recognized at cost being the difference between the purchase price and the net identifiable assets acquired. Following initial recognition, goodwill is to be measured at cost less any accumulated impairment loss.

### *Multi-client library*

The multi-client library comprises completed seismic surveys and projects under development that can be licensed to a number of customers. The multi-client library is capitalised at cost less accumulated impairment losses and amortisation. Amortisation is a percentage of the book value by comparing the value of actual revenue in the period to the total forecast revenue of each project. In addition, the Group has a minimum amortisation policy where the carrying amount one year after completion is at a maximum 60% of cost. This maximum level is reduced by 20 percentage points for each of the three subsequent years.