

# Spectrum ASA

## 4th quarter 2008

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### 2008 Summary

	<u>Q4</u>	<u>Q3</u>
Revenue	US\$13.5m	US\$13.3m
EBITDA	US\$2.27m	US\$4.2m
Cash Balance	US\$4.6m	US\$3.8m

- GGS Atlantic continues satisfactory operational efficiency
- Onboard processing continues strong performance
- Multi Client Sales reached US\$5.3m in Q4
- Data Processing margins under continued pressure in competitive markets

## FOURTH 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. The company has its operational head office in Woking, UK and employs more than 200 staff at offices and affiliates throughout the world. Approximately 135 of the employees are geophysicists.

The currency of presentation has changed from NOK to US\$ as this reflects the functional currency of significant entities and transactions in the group.

Through seismic processing centers in UK, USA, Egypt, China, Pakistan and India, Spectrum provides 3D, 2D, time and depth seismic processing services. The multi-client library of Spectrum consists of more than 200,000 line kilometers of seismic data and reports from many of the major oil producing regions of the world.

Marine acquisition of seismic data is provided by the vessel GGS Atlantic that has recently undergone extensive technological upgrades and is equipped with new instrumentation and computing hardware.

### MAIN EVENTS FOR THE PERIOD

Historically, Q4 has been a robust quarter for multi client sales and securing data processing contracts, however the reduction in the price of oil from US\$110bbl to US\$40bbl in the 3 months has led to reduced activity in the seismic markets.

The GGS Atlantic completed a successful acquisition off the Seychelles in October before being transitioned by GX Technology (GXT) to the West Coast of India. Spectrum took this opportunity to perform the contractual hardware upgrade in Dubai on route. In addition GGS Atlantic performed an engine repair 4<sup>th</sup> quarter and achieved an unsatisfactory uptime during last quarter resulting in revenues of US\$4.1m and an EBITDA of US\$0.3m.

Data processing is the core competence of Spectrum but experienced a challenging market, resulting in last quarter revenues up to US\$3.4m against US\$3.0m in previous quarter with an EBITDA of US\$(0.2m). On Board processing continued to improve operational efficiency throughout the quarter, and Spectrum are currently processing on board three seismic vessels including the GGS Atlantic and these contracts run through in to third quarter of 2009.

The multi client business were able to secure sales of both of our Gulf of Mexico surveys for combined revenues of US\$2.5m together with a further Indian reprocessing sale of US\$900k. Both of these regions offer long term interest to our customers and we continue to look for complementary data. Including sales of other components of the library total sales reached US\$4.4 m with an EBITDA of US\$2.1m in the quarter.

## 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 (GGSASA), as a consequence no comparative figures are provided.

Group revenues for the fourth quarter remained steady with Q3 at US\$13.5m with operating expenses of US\$11.3m resulting in a group EBITDA of US\$2.3m. There was an increase in amortization on the libraries in the quarter to US\$3.7m which was offset by exchange gains of US\$3.4m, including a gain of US\$4.2m attributable to the re-translation of the loan from GGSASA, producing a net profit of US\$2.2m.

## BALANCE SHEET

Total non-current assets totaled US\$33.9m divided into Intangible assets of US\$27.2m, tangible assets of US\$ 5.0m and financial assets of US\$1.7m. There have been no material additions to intangible assets in the quarter while Work in progress has reduced by US\$1.1m as data processing projects have been converted into revenue during the quarter. Total tangible assets of US\$5.0m include additions relating to the capitalization of the GGS Atlantic source upgrade and CLARITAS software roll-out, together with the computer hardware on board the seismic vessels and within our processing centers.

Total current assets were US\$20.8m predominately made up of a cash balance of US\$ 4.6m and accounts receivable of US\$13.2m. The high level of accounts receivable reflects the late timing of sales in December together with delays in collecting cash from a contract in India.

Long term debt of US\$21.9m includes a loan from GGSASA of US\$21.4m (NOK150m) 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. In addition a deferred tax liability of US\$2.9m has been recognised in relation to fair value of assets acquired.

The short term liabilities are US\$5.9m representing an increase of US\$1.7m in accruals and accounts payables.

## MARINE ACQUISITION

Spectrum has a bareboat charter for the seismic vessel GGS Atlantic which extends to September 2012. The GGS Atlantic was refitted and substantially upgraded in 2007 before acquiring the Big Wave Phase 51 multi-client survey. Additional upgrades and investments have been made throughout 2008, with a successful source upgrade during November for which the boat was out of service for 13 days.

During October the GGS Atlantic was deployed under the GXT contract off East Africa and the Seychelles before being transitioned to the West Coast of India in November. The

acquisition of data has been encouraging with the client very satisfied with the results achieved.

Marine acquisition revenue was disappointing for the quarter at only US\$4.1m due to the downtime surrounding both the source upgrade and the engine repairs. The daily rate productivity achieved when working was in line with expectations and ahead of the previous quarter.

## SEISMIC DATA PROCESSING

Seismic data processing services are provided from processing centers in UK, US, China, Egypt, Pakistan and offshore India. 2D and 3D processing is undertaken in both time and depth for a range of National and International oil companies. Processing geophysicists have an average of 14 years experience and use a 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.

The seismic data market in Libya has become a highly competitive environment with very low margins being achieved. Spectrum and its Libyan partner, NAPSCO signed a Letter of Intent to dissolve the NAPSCO Spectrum-Geopex data processing joint venture with effect of 31 December 2008. NAPSCO will continue to operate the company and have agreed a Software licensing agreement for use of Spectrum's in-house SPA Geoscan and SPA Geomedia software.

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.

Onboard processing revenues are ahead of expectations as the backlog is worked through the processing system. On shore based data processing revenue continues to suffer the effects from poor sales during both Q3 & Q4.

## MULTI CLIENT

Spectrum's multi-client library is composed of data and reports from many of the major oil producing regions. The many components of the library include 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 and 700 sq km of 3D 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 representative office in Singapore.

A good level of sales has been achieved in India and the Gulf of Mexico, though sales in other regions such as the East Mediterranean and Northern Europe have disappointed due to delays in bid round activities.

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.

Multi Client produced satisfactory revenues in general over the quarter but due to the prevailing economic conditions the sales were concentrated very late in December.

#### SUBSEQUENT EVENTS

On 31<sup>st</sup> December 2008, GXT exercised their contractual option to give 90 days' notice for the charter of the GGS Atlantic, effectively finishing the charter 3 months earlier than the original expiry date. Spectrum and GXT continue to have dialogue regarding opportunities that will last beyond the notice period although there is no certainty it will develop in to additional work beyond the end of March.

Since the quarter ended, Ainslie Casson has joined Spectrum as Head of Offshore Acquisition. He has considerable experience in marine seismic acquisition having worked on board vessels around the world over the last 15 years.

Accounts receivable balance has been reduced at date of report to \$5.5m

#### FUTURE PROSPECTS

Despite the global economic downturn and widespread market expectations of a drop in Exploration and Production expenditure of between 10 to 20 % in 2009, in the medium term there are considerable industry challenges to match the oil supply with demand. Against this backdrop Spectrum remains focused on securing new data processing contracts for its processing centers, together with further profitable on-board processing projects and selling existing multi-client data in anticipation of and as bid rounds are announced.

All group expenditure is being actively reviewed in order to reduce costs and conserve cash so that Spectrum remains in a position to leverage any opportunities that are provided by an uncertain market.

Within the marine acquisition business, the short term focus will be to secure operational efficiency for the GGS Atlantic in the first quarter, driving down costs and then securing future longer term opportunities following the end of the GXT charter. Additionally in Q1 2009, the GGS Atlantic is acquiring data for GGSASA off the East coast of India, under the terms of an extension to a previously held contract negotiated during the purchase of the

seismic business in June 2008. It is recognized that this market is very competitive during the current market conditions.

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.

Strategic recruitment and additional training is ongoing in order to achieve organizational improvements and production efficiencies throughout the Group. Particular focus is being given to restructuring the business development and sales functions.

On the basis of the Multi Client order pipeline together with the current market conditions, the Board adopts a cautious but positive outlook for the Group's future activities.

CONDENSED INCOME STATEMENT (UNAUDITED)

Spectrum ASA  
Group Consolidated Income Statement

(US\$000's)	Quarter ended 31.12.08	28.03.08 to 31.12.08
Revenue	13,529	26,841
Operating expenses	(11,253)	(20,348)
<b>EBITDA</b>	<b>2,277</b>	<b>6,493</b>
Depreciation/ amortization	(3,668)	(6,290)
<b>EBIT</b>	<b>(1,392)</b>	<b>202</b>
Interest expense, net	(539)	(1,111)
Foreign exchange gain	3,441	3,653
Other financial items	937	899
<b>Profit before tax</b>	<b>2,447</b>	<b>3,647</b>
Tax expense	(205)	(419)
<b>Net profit</b>	<b>2,243</b>	<b>3,229</b>
<b>Net profit to equity holders</b>	<b>2,243</b>	<b>3,229</b>
Earning per share	0.28	0.40
Diluted earnings per share	0.28	0.40
Basic shares outstanding average	8,106,452	8,106,452
Diluted shares outstanding average	8,106,452	8,106,452

CONDENSED BALANCE SHEET (UNAUDITED)

Spectrum ASA  
Group Consolidated Balance Sheet

(US\$000's)	31.12.08
<b>Assets</b>	
<b>Non-current assets</b>	
<b>Intangible assets</b>	
Goodwill	9,499
Software	3,870
Work in Progress	36
Multi-client library, net	13,426
Total intangible assets	26,831
<b>Tangible assets</b>	
Machinery and equipment	2,562
Fixtures, Fittings & Office Equipment	2,462
Total tangible assets	5,024
<b>Financial assets</b>	
Investment in joint ventures	1,141
Other investments	576
Total financial assets	1,717
<b>Total non-current assets</b>	<b>33,572</b>
<b>Current assets</b>	
Inventory	1,151
Accounts receivable	13,514
Other receivables	1,533
Total receivables and inventory	16,198
Cash and cash equivalents	4,602
<b>Total current assets</b>	<b>20,800</b>
<b>Total assets</b>	<b>54,372</b>
<b>Shareholders' Equity and Liabilities</b>	
<b>Shareholders' equity</b>	
Share capital	1,595
Share premium reserve	27,944
Other equity reserves	(6,279)
Total equity	23,260
<b>Liabilities</b>	
<b>Long term liabilities</b>	
Deferred tax liability	2,862
Long term debt	21,927
Other liabilities	456
Total long term liabilities	25,245
<b>Current liabilities</b>	
Short term debt	948
Payable tax	152
Other liabilities	4,766
Total current liabilities	5,866
<b>Total shareholders' equity and liabilities</b>	<b>54,372</b>

EQUITY RECONCILIATION (UNAUDITED)

Spectrum ASA  
Equity Reconciliation

	28.03.08 to 31.12.08
Equity for the Group (US\$000's)	
Incorporation on 28 March 2008	197
Equity issue	29,527
Equity redemption	(186)
Share issue costs	(1,609)
Profit for period	3,229
Currency translation differences	(7,896)
<b>Closing balance</b>	<b>23,260</b>

CONDENSED CASHFLOW STATEMENT (UNAUDITED)

**Spectrum ASA**  
**Group Consolidated Cash Flows Statement**

(US\$000's)	Quarter ended 31.12.08	28.03.08 to 31.12.08
Cash flows from operating activities:		
Profit before tax	2,447	3,647
Depreciation and amortisation	3,668	6,290
Interest expense, net	539	1,111
Share of loss of associated undertakings	58	82
Working capital changes	(1,513)	(12,780)
Net cash flow from operating activities	5,199	(1,650)
Cash flows from investing activities:		
Acquisition of subsidiaries, cash acquired	-	1,203
Acquired intangible assets	-	(37,548)
Investment in multi-client library – new	(516)	(674)
Investment in tangible assets	(1,358)	(6,202)
Proceeds from sale of tangible assets	-	27
Investment in joint ventures	-	(1,506)
Other investments	-	(502)
Net cash flow from investing activities	(1,874)	(45,202)
Cash flows from financing activities:		
Issued capital	-	25,759
Equity transaction costs	-	(1,404)
Long term acquisition financing	-	25,746
Loan interest paid	(430)	(1,105)
Other long term liabilities acquired	-	853
Deferred tax liability acquired	-	3,438
Net cash from financing activities	(430)	53,288
Net change in cash and cash equivalents	2,895	6,436
Net foreign exchange differences (unrealised)	(2,232)	(1,835)
Cash and cash equivalents at beginning of period	3,939	0
<b>Cash and cash equivalents at end of period</b>	<b>4,602</b>	<b>4,602</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.

## Note 3 - Segment information

### Spectrum ASA Group Segment information

(In thousands of US\$)	Quarter ended 31.12.08			28.03.08 to 31.12.08		
	Total	Internal	External	Total	Internal	External
<b>Revenue</b>						
Seismic data processing	3,908	516	3,392	7,085	673	6,412
Multi-client surveys	5,329	-	5,329	9,562	-	9,562
Acquisition	4,808	-	4,808	10,867	-	10,867
<b>Total</b>	<b>14,045</b>	<b>516</b>	<b>13,529</b>	<b>27,514</b>	<b>673</b>	<b>26,841</b>
<b>EBITDA</b>						
Seismic data processing	(215)	(28)	(187)	(363)	(36)	(327)
Multi-client surveys	2,182	-	2,182	5,198	-	5,198
Acquisition	282	-	282	1,622	-	1,622
<b>Total</b>	<b>2,249</b>	<b>(28)</b>	<b>2,277</b>	<b>6,457</b>	<b>(36)</b>	<b>6,493</b>
<b>EBIT</b>						
Seismic data processing	(443)	(30)	(413)	(803)	(40)	(763)
Multi-client surveys	(1,145)	-	(1,145)	(279)	-	(279)
Acquisition	166	-	166	1,244	-	1,244
<b>Total</b>	<b>(1,422)</b>	<b>(30)</b>	<b>(1,392)</b>	<b>162</b>	<b>(40)</b>	<b>202</b>