

# **Spectrum ASA**

## **3rd quarter 2008**

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## THIRD 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.

Through seismic processing centres in UK, USA, Egypt, Libya, 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 kilometres 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.

### 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). Group revenues for the third quarter and year-to-date are NOK 77.6 million, group EBITDA is NOK 24.6 million and EBIT is NOK 9.3 million.

### BALANCE SHEET

The total balance sheet was NOK 359.4 million as at 30 September 2008.

Total non-current assets were NOK 241.4 million. Total intangible assets were NOK 202.4 million, which is mostly comprised of multi-client library of NOK 101.0 million, software for primarily data processing of NOK 28.3 million and goodwill of NOK 66.5 million. The level of work in progress was NOK 6.6 million representing outstanding data processing orders.

Total tangible assets were NOK 27.1 million, inclusive of GGS Atlantic vessel equipment of NOK 12.0 million and general office equipment of NOK 15.1 million.

Total financial assets of NOK 11.9 million are mainly investments in joint ventures in Egypt and Libya.

Total current assets were NOK 118.0 million. Total receivables and inventory were NOK 95.1 million. Other receivables of NOK 26.3 million includes a fee of NOK 15.3 million to be received from GGS for the right to use the vessel GGS Atlantic to finish a proprietary project of the Indian East Coast. Cash and cash equivalents are NOK 22.9 million.

Long term debt of NOK 154.2 million includes a loan from GGS of NOK 150.0 million in connection with the assets purchased from it at 30th June 2008. In addition a deferred tax liability of NOK 20.0 million was recognised in relation to fair value of assets acquired from

GGs. Other liabilities of NOK 1.1 million are related to investment in GeoBridge purchased at 30 June 2008.

The short term liabilities are NOK 32.1 million.

#### MAIN EVENTS OF THE PERIOD

In July 2008, Spectrum signed a supply contract with GX Technology (GXT) for a 12 month seismic charter of the GGS Atlantic (with an option for a further 12 month extension and a 3 month notice period). The GGS Atlantic commenced the contract on behalf of GXT immediately following the completion of the KNOC, Yemen project at the end of July 2008. The GGS Atlantic has recorded satisfactory productivity whilst acquiring a survey offshore Tanzania on behalf of GXT.

There were sales of Big Wave (eastern Gulf of Mexico) multi-client data to major US-based oil companies with a value of more than USD 2 million. Further sales of other components of the library continue in line with expectations including west coast of India data for USD1.1 million.

Prior to the purchase of the seismic business there were some operational problems associated with the rapid start up of on-board data processing on four seismic vessels. These problems are gradually being resolved. A backlog of more than USD 7.4 million will be processed through until mid-2009, of which USD 3.4 million is expected to be processed in Q4 2008. The on shore data processing backlog currently stands at more than USD 2.0 million.

Strategic recruitment is ongoing to enable continual organizational improvements throughout the Group. Particular focus is being given to restructuring the business development and sales functions.

Technology updates and enhancements are being made to the seismic data processing software. The roll out of new production data processing software (CLARITAS) will commence in 4<sup>th</sup> quarter of 2008. This will enable both improvements in data processing efficiency and also the range of technology offered to clients. Technology updates are being planned and coordinated by a newly appointed (July, 2008) Group Technical Manager.

#### GROUP SENIOR MANAGEMENT TEAM

During this quarter appointments have been made to enhance the Group's senior management team. The first appointments are:

Andy Cuttell has been appointed Executive Vice President Data Processing. He is responsible for all aspects of Spectrum's Global Seismic Data Processing Operations. Andy has 40 years' experience in the seismic industry, 13 of them with Spectrum and is based in the Houston office.

Charles Harmer has been appointed Executive Vice President of Multi-Client Services. He is responsible for all aspects of Spectrum's Global Multi-client services delivery. Charles has 35

years' experience in various industry sectors, the majority of which has been spent overseas. He has 23 years' experience in the Seismic industry, 7 of them with Spectrum.

Keith Watt is Financial Controller and Head of Marketing. He has more than 30 years' experience in various industry sectors and has a business degree as well as and holding both FCMA and a Chartered Institute of Marketing professional qualifications.

Since the quarter ended, Rhys Edwards has joined Spectrum as CFO. He has 22 years' experience in various senior financial and corporate roles across a number of industries, including the provision of software services to the oil industry. He has a degree in accounting and finance and an ACMA qualification.

#### SEISMIC DATA PROCESSING

Seismic data processing services are provided from processing centres in UK, US, Egypt, Libya, China, Pakistan and 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 centres 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 three separate seismic vessels working offshore India and East Africa.

Onboard processing revenues are in line with expectations, while in-house data processing revenue has suffered from poor sales. Furthermore some anticipated client projects have been delayed.

#### 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 new office was added in Singapore to expand our Far East market coverage.

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 have disappointed due to delays in bid round activity offshore Lebanon.

#### MARINE ACQUISITION

Spectrum has a bareboat charter for the seismic vessel GGS Atlantic. The charter extends until 4 September 2012. The GGS Atlantic was refitted and substantially upgraded in 2007 before acquiring the Big Wave multi-client survey. More upgrades and investments have been made throughout 2008. During July the GGS Atlantic was engaged on a 1,000 km 2D

survey offshore Yemen on behalf of the Korean National Oil Company (KNOC) before being re-deployed to East Africa.

Marine acquisition has produced satisfactory revenues and profitability over the quarter. It is anticipated that margins will increase as operational efficiencies improve.

#### FUTURE PROSPECTS

Despite the global economic downturn and fluctuating price of oil, Spectrum is focused on securing backlog for data processing throughout all centres, securing further profitable on-board processing projects and selling existing multi-client data in the traditionally active fourth quarter. The current backlog for data processing exceeds \$7 million.

For the marine acquisition part of the business, the short to medium term focus will be to secure operational efficiency for the GGS Atlantic in the fourth quarter and beyond to secure enhanced margins for the remainder of the GXT charter and then remain competitive for future long term opportunities.

In addition, Spectrum will capitalise on its expertise by evaluating targeted multi-client investment projects with a high level of pre-funding and securing new low risk re-processing opportunities.

Historically, Q4 has been a robust quarter for multi client sales. On the basis of this and the above considerations coupled 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

	Quarter ended 30.09.08	28.3.08 to 30.09.08
(In thousands of NOK)		
Revenue	77,558	77,558
Operating expenses	(52,994)	(52,994)
<b>EBITDA</b>	<b>24,564</b>	<b>24,564</b>
Depreciation/ amortization	(15,276)	(15,276)
<b>EBIT</b>	<b>9,288</b>	<b>9,288</b>
Interest expense, net	(3,334)	(3,334)
Foreign exchange gain	1,263	1,263
Other financial items	(221)	(225)
<b>Profit before tax</b>	<b>6,996</b>	<b>6,992</b>
Tax expense	(1,247)	(1,247)
<b>Net profit</b>	<b>5,749</b>	<b>5,745</b>
<b>Net profit to equity holders</b>	<b>5,749</b>	<b>5,745</b>
Earning per share	0.71	0.71
Diluted earnings per share	0.71	0.71
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

30.09.08

(In thousands of NOK)

<b>Assets</b>	
<b>Non-current assets</b>	
<b>Intangible assets</b>	
Goodwill	66,480
Software	28,331
Work in Progress	6,641
Multi-client library, net	100,979
<b>Total intangible assets</b>	<b>202,431</b>
<b>Tangible assets</b>	
Machinery and equipment	11,985
Fixtures, Fittings & Office Equipment	15,093
<b>Total tangible assets</b>	<b>27,078</b>
<b>Financial assets</b>	
Investment in joint ventures	8,773
Other investments	3,103
<b>Total financial assets</b>	<b>11,876</b>
<b>Total non-current assets</b>	<b>241,385</b>
<b>Current assets</b>	
Inventory	15,755
Accounts receivable	53,046
Other receivables	26,300
<b>Total receivables and inventory</b>	<b>95,101</b>
Cash and cash equivalents	22,948
<b>Total current assets</b>	<b>118,049</b>
<b>Total assets</b>	<b>359,434</b>
<b>Shareholders' Equity and Liabilities</b>	
<b>Shareholders' equity</b>	
Share capital	8,106
Share premium reserve	141,971
Other equity reserves	1,941
<b>Total equity</b>	<b>152,018</b>
<b>Liabilities</b>	
<b>Long term liabilities</b>	
Deferred tax liability	20,031
Long term debt	154,228
Other liabilities	1,096
<b>Total long term liabilities</b>	<b>175,355</b>
<b>Current liabilities</b>	
Short term debt	11,456
Payable tax	504
Other liabilities	20,101
<b>Total current liabilities</b>	<b>32,061</b>
<b>Total shareholders' equity and liabilities</b>	<b>359,434</b>

EQUITY RECONCILIATION (UNAUDITED)

Spectrum ASA  
Equity Reconciliation

	28.03.08 to 30.09.08
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(In thousands of NOK)	
Incorporation on 28 March 2008	1,000
Equity issue	150,023
Equity redemption	(946)
Share issue costs	(8,177)
Profit for period	5,745
Currency translation differences	4,373
<b>Closing balance</b>	<b>152,018</b>

CONDENSED CASHFLOW STATEMENT (UNAUDITED)

Spectrum ASA  
Group Consolidated Cash Flows Statement

	Quarter ended	28.03.08 to 30.09.08
	30.09.08	30.09.08
(In thousands of NOK)		
Cash flows from operating activities:		
Profit before tax	6,996	6,992
Depreciation and amortisation	15,276	15,276
Gain from sale of intangible assets	0	0
Interest expense, net	3,334	3,334
Share of loss of associated undertakings	138	138
Working capital changes	(28,982)	(65,640)
Net cash flow from operating activities	(3,238)	(39,900)
Cash flows from investing activities:		
Acquisition of subsidiaries, cash acquired	0	7,007
Acquired intangible assets	0	(218,757)
Investment in multi-client library – new	(920)	(920)
Investment in tangible assets	(4,086)	(28,221)
Proceeds from sale of tangible assets	158	158
Investment in joint ventures	0	(8,777)
Other investments	0	(2,924)
Net cash flow from investing activities	(4,848)	(252,434)
Cash flows from financing activities:		
Issued capital	0	150,077
Equity transaction costs	(375)	(8,177)
Short term acquisition financing	(125,000)	0
Long term acquisition financing	0	150,000
Loan interest paid	(3,932)	(3,932)
Other long term liabilities acquired	0	4,968
Deferred tax liability acquired	0	20,031
Net cash from financing activities	(129,307)	312,967
Net change in cash and cash equivalents	(137,393)	20,633
Net foreign exchange differences (unrealised)	2,315	2,315
Cash and cash equivalents at beginning of period	158,026	0
<b>Cash and cash equivalents at end of period</b>	<b>22,948</b>	<b>22,948</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.

Costs incurred in this quarter include some costs relating to the processing of seismic data started earlier in 2008, before the acquisition of the seismic business by Spectrum. The conclusion of negotiations will result in additional revenue for Spectrum to be recognized in quarter 4.

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 (UK)	subsidiary – 100%	Full consolidation
Spectrum US (USA)	subsidiary – 100%	Full consolidation
Spectrum China (China)	subsidiary – 100%	Full consolidation
Spectrum Egypt (Egypt)	joint venture – 50%	Equity accounting
Spectrum Libya (Libya)	joint venture – 32.5%	Equity accounting
GeoBridge (Singapore)	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 30 September 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 NOK*

The balance sheets of subsidiaries with functional currency other than NOK are translated into NOK 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:

### *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.

### *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.

### *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.

### *Acquisition*

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

## **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 judgements, estimates and assumptions**

In the process of preparing financial statements, management is required to apply judgement, 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 judgement 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 which are subject to regular external independent review.

## 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

	Quarter ended 30.09.08	28.03.08 to 30.09.08
(In thousands of NOK)		
<b>Revenue</b>		
Seismic data processing	17,594	17,594
Multi-client surveys	24,663	24,663
Acquisition	35,301	35,301
<b>Total</b>	<b>77,558</b>	<b>77,558</b>
<b>EBITDA</b>		
Seismic data processing	(818)	(818)
Multi-client surveys	17,572	17,572
Acquisition	7,810	7,810
<b>Total</b>	<b>24,564</b>	<b>24,564</b>
<b>EBIT</b>		
Seismic data processing	(2,606)	(2,606)
Multi-client surveys	5,555	5,555
Acquisition	6,339	6,339
<b>Total</b>	<b>9,288</b>	<b>9,288</b>

The methodology for allocating corporate overheads will be reviewed and if appropriate changed, for comparison purposes historic figures will be represented.