CEGAL GROUP AS
Annual Report 2016

cegal

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MESSAGE FROM THE CEO

With significant investments in our product and services portfolio over the last years, we are now well positioned for the future of the oil and gas industry.

25 years ago, Tim Berners-Lee invented the World Wide Web. Since then, digitalization has become a natural part of everyday life and businesses.

The Global Digital report 2017 points out important milestones. Now more than half of the world is using a smart phone, almost two-thirds are using a mobile phone, more than half of the world´s web traffic comes from mobile devices and more than half of all mobile connections are broadband based.

Over the last 15 years, Cegal has been a professional partner delivering cloud solutions, and now cloud technology is mainstream. However, mature organizations realize that moving to the cloud does not happen overnight and subsequently embrace a hybrid solution that includes both on-premises and cloud environments. Cloud solutions should integrate with locally stored data and with on-premises infrastructure.

In today`s digital transformation, we deliver hybrid cloud solutions, services and software products. We are specialized within oil and gas where digitalization is highly relevant, especially because of the challenging market and the focus on cost efficiency in the industry.

Megatrends like Cloud, Internet Of things, Big Data and analytics will be important areas in the oil and gas segment for the years to come.

We have a business model based on delivery of scalable and recurring As a Service solutions. This enables our customers to scale costs easily depending on the number of employees, users, required services, licenses and projects. With long-term customer relations and close collaboration, we can ensure product adoption and business value. With domain knowledge within oil and gas, our mission is to fill the gap between IT and the E&P industry.

We are well positioned for the future of the industry. With significant investments in our product and services portfolio over the last years, we now have a unique offering. In addition, we have strengthened our organization with new resources and increased our international footprint to create a solid platform for future growth and expansion.

Going forward we will continue to build strong employee engagement with teamwork, unique products and a drive for delivering operational excellence. As CEO of Cegal, I am very proud of my team. I would like to thank the entire organization for their dedication in reaching our goals and I look forward to meet the future together!

Best regards,

Svein Torgersen
CEO

BOARD OF DIRECTORS' REPORT
CEGAL GROUP AS

SCOPE OF BUSINESS

Cegal's mission is to be the most innovative provider of IT services and geoscience solutions to the global oil and gas industry. Cegal Group AS is the parent company of Cegal AS and Cegal Geoscience AS.

Cegal Group AS and the main office is located in Stavanger, Norway. The group has locations in Stavanger, Oslo, London, Aberdeen, Thurso, Houston, Calgary and Dubai. In 2015, Cegal (through Cegal Ltd, a subsidiary of Cegal Geoscience AS) acquired Escape Business Technologies Ltd with offices in Aberdeen and Thurso. This acquisition increased Cegal's footprint in the UK.

BUSINESS SEGMENTS

Cloud

Cegal's cloud based solutions provides high performance IT systems and customized software solutions to more than 11,000 end users. We support more than 800 applications, and our support center offers a single point of contact for all IT related questions. We have customized our offering for the oil and gas industry, in particular with respect to advanced geoscience applications and critical on/offshore operations. Cegal supports all main exploration and production applications based on best practices. In 2016, cloud including cloud services represented 67.4% of our revenues. Recurring cloud revenue represents approximately 70% of total cloud revenues.

Software

Cegal develops and sells software to extend, improve and speed up workflows within geology, geophysics, reservoir engineering and data management. In addition, we offer development of high quality customized software solutions. In 2016, software products and services represented 22.8% of revenues.

Geoscience consulting

Cegal offers highly experienced on-site consultants and expert geomodelers. In 2016, geoscience consulting represented 4.4% of our revenues.

Other

Mainly add-on sales of hardware and other software to IT cloud customers. In 2016, other revenue represented 5.4% of our revenues.

STATEMENT OF INCOME

Cegal Group financial statement for 2016 has been prepared in accordance with the Norwegian Accounting Act § 3-9 and specific regulations, often referred to as "the simplified application of international financial reporting standards (IFRSs)". In connection with the IFRS implementation the revenue recognition principles for software revenue in Cegal has been changed to be comparable to leading global practices.

Operating Revenue

Actual turnover in the group was NOK 506.9 million in 2016 compared to NOK 569.6 million in 2015, representing a decrease of 11.0%.

Operating Result (EBITDA)

The group's earnings before interest, tax, depreciation and amortization (EBITDA) was in 2016 NOK 63.7 million, representing a decrease of 27.0% compared to 2015.

Depreciations

Depreciation of tangible assets was NOK 39.1 million compared to 44.8 million in 2015, whereas amortization of intangible assets was NOK 31.2 million compared to NOK 28.6 million in 2015.

Net financial items and profit before and after tax

Net financial items amounted to NOK -14.9 million compared to NOK -13.9 million in 2015. Earnings before tax was NOK -21.6 million compared to NOK -0.1 million in 2015. Tax was NOK -6.7 million resulting in a loss of 14.9 million.

Cash flow and financial positions

Total cash flow from operations for the group was NOK 66.4 million. The difference between profit before tax and cash flow from operations is due to taxes, depreciation and changes in working capital.

The cash flow from investment activities was NOK -31.0 million, which was related to purchase of tangible and intangible assets.

Cash flow from financing activities was NOK -32.6 million, which was related to payment of financial leases (32.0 million) and purchase of own shares (0.6 million). As at 31 December 2016, the group had bank deposits totaling NOK 45.9 million plus unused bank overdraft facilities of NOK 30 million. Cegal has complied with all loan covenants during 2016.

The Group's current assets amounted to 28.6% of total assets per 31 December 2016. Total assets at the end of year was NOK 555.3 million.

GOING CONCERN

In accordance with the Accounting Act (Regnskapsloven) § 3-3a it is confirmed that the going concern assumption is present. This assumption is based on profit forecasts for 2017 and the company's long-term strategic prognosis. Cegal adjusted the cost base in 2016 which was continued into Q1 2017. The cost cutting activities reduced cost of good sold, operating costs and personnel cost reflecting the market situation. After adjusting the cost base and securing the refinancing in March 2017, the Group is in a healthy financial position.

Although Cegal is weighted with a majority of revenue in the oil and gas sector, our business model has proven robust even in tough times. We see the cost focus in the oil sector as a growth opportunity as we offer products and services that will enable our customers to find more oil and operate more cost effectively.

RISK FACTORS

Market risk

The group has exposure to currency and interest rate risk. Currency risk includes risk from contractual purchase or sale denominated in foreign currencies, in addition to foreign investments and future cash flow from these investments. This currency risk is reduced by having parts of the cost base in foreign currencies as well.

The group also has exposure to changes in interest rates, as the group's long-term interest-bearing debt has floating interest rates.

Credit risk

The loss on receivables has historically been low, and the risk of losses on receivables is considered limited. The risk could increase in light of the decline in oil price, which could put some of the group's customers in a position with financial difficulties. This implies that the focus on credit risk is increased.

Liquidity risk

Cegal generated positive cash flow from operations in 2016, and held liquid assets of NOK 45.9 million at the close of the year, as well as having access to bank overdraft facilities of NOK 30 million. The group considers its liquidity as good, and its exposure to liquidity risk is considered as limited. On March 24, 2017 Cegal refinanced the Stock Listed Bond Loan at Oslo Stock Exchange. The refinancing is secured by a long term loan facility in SpareBank 1 SR-Bank. The total long-term financing is 200 MNOK. Cegal also secured an overdraft facility of 50 MNOK and a leasing facility of 30 MNOK.

WORK ENVIRONMENT

Sick leave in the Group was approximately 2.9% in 2016. During the course of the year, it has not occurred or been reported serious workplace accidents, which resulted in significant damage or injuries. The working environment is good, and improvements are being continuously evaluated and implemented.

EQUALITY

The Board of Cegal Group AS consists of eight male members. At the end of 2016, the group consisted of a total of 315 employees, including 48 women and 267 men. The goal is to be a workplace where there is full gender equality.

DISCRIMINATION

The Anti-Discrimination Act is to promote equality, ensure equal opportunities and rights and prevent discrimination based on ethnicity, national origin, ancestry, color, language, religion and belief. The Group works actively, purposefully and systematically to promote the purpose within our business. The activities include recruitment, pay and working conditions, promotion, development and protection against harassment.

The Group aims to be a workplace where there is no discrimination on grounds of disability. The group works actively and purposefully to design and facilitate the physical conditions so that the different functions can be used by as many people as possible. For employees or applicants with disabilities, individual arrangements are made with regards to workplaces and work tasks.

ENVIRONMENT

The operations do not affect the external environment beyond the normal for the company business.

EVENTS AFTER THE YEAR-END CLOSING OF THE ACCOUNTS

No significant events after the balance sheet date.

FUTURE OUTLOOK

With continued low and highly uncertain oil prices, Cegal's main market is expected to be challenging with increased cost focus and reduced capital expenditure in key customer segments. Although our core offering has proved resilient to changes in market climate and Cegal has a balanced portfolio of blue chip customers, our customers' cost reduction focus is expected to impact parts of Cegal's business. Cegal therefore has a strong and continuous focus on cost efficiency to increase future competitiveness and growth opportunities.

Our investment in new products and services is expected to remain high in the years to come. Hence, providing additional growth opportunities and increased uniqueness.

Based on the current demand from our customers, a focused organization, new unique products and a strong order backlog, the company expects some growth, increased profitability and positive cash flow going forward.

NET PROFIT AND ALLOCATIONS

The Board proposes the following allocation of loss for Cegal Group AS:

Transferred to other equity	NOK	- 17 946 917
Total allocation	**NOK**	**- 17 946 917**

No dividend is proposed in respect of the 2016 financial year.

Stavanger, 27 April 2017

Henning Vold
Chairman

Arne Kristoffer Norborg
Board member

Per-Ola Baalerud
Board member

Frank Garneng
Board member

Stian Vemmestad
Board member

Ketil Anders Waagebø
Board member

Ole Johannes Rossebø
Board member

Svein Torgersen
CEO

GROUP ANNUAL ACCOUNTS 2016

- Statement of comprehensive income
- Statement of financial position (balance)
- Statement of cash flow
- Statement of changes in equity
- Notes

CEGAL GROUP AS
Amount in NOK thousands

STATEMENT OF COMPREHENSIVE INCOME	NOTE	2016	2015
Revenue			
Sales revenue	15	506 878	569 620
Total revenue		**506 878**	**569 620**
Operating expenses			
Cost of sale		138 774	151 284
Payroll expenses	8	247 375	271 754
Other operating expenses	7, 8	57 070	59 424
Operating expenses		**443 219**	**482 462**
EBITDA	1	**63 659**	**87 158**
Depreciation and amortization	4,5	69 709	73 445
Impairment		563	**0**
Operating profit/-loss		**-6 614**	**13 713**
Financial income and expenses			
Interest income		1 197	1 317
Other financial income		29 446	26 634
Interest expenses		19 105	19 395
Other financial expenses		26 528	22 413
Net financial items		**-14 991**	**-13 857**
Loss before tax		-21 604	-144
Tax on ordinary result	9	-6 715	-1 641
Net profit or loss for the year		**-14 889**	**1 497**
Other comprehensive income			
Items which will not be reclassified over profit and loss		0	0
Currency translation differences		-8 376	-1 186
Items which may be reclassified over profit and loss in subsequent periods		-8 376	-1 186
Net other comprehensive income		-8 376	-1 186
Total comprehensive income for the year		**-23 265**	**311**

CEGAL GROUP AS
Amount in NOK thousands

STATEMENT OF FINANCIAL POSITION	NOTE	2016	2015	01.01.2015
Assets				
Intangible assets				
Goodwill	4,16	249 856	257 225	218 054
Software	4	76 755	85 058	89 770
Deferred tax assets	9	7 719	0	0
Total intangible assets		**334 331**	**342 283**	**307 824**
Tangible assets				
Servers, office furniture, etc	5	60 488	63 231	64 789
Total tangible assets		**60 488**	**63 231**	**64 789**
Financial assets				
Other receivables		1 850	2 266	1 853
Total financial assets		**1 850**	**2 266**	**1 853**
Non-current assets		**396 668**	**407 780**	**374 467**
Current assets				
Trade receivables		91 058	126 999	127 429
Other receivables		2 959	5 450	2 735
Prepayments		18 714	21 826	18 677
Total current assets		**112 731**	**154 274**	**148 841**
Cash and cash equivalents	6	45 895	43 176	78 830
Total current assets		**158 626**	**197 450**	**220 682**
Total assets		**555 295**	**605 230**	**602 137**

CEGAL GROUP AS
Amount in NOK thousands

STATEMENT OF FINANCIAL POSITION	NOTE	2016	2015	01.01.2015
Equity and liabilities				
Paid-in capital				
Share capital	13	1 258	1 258	1 246
Share premium reserve		139 714	139 714	134 536
Own shares		-6	-5	-20
Total paid-in capital		**140 966**	**140 967**	**135 762**
Retained earnings				
Other equity		15 097	38 942	30 687
Total retained earnings		**15 097**	**38 942**	**30 687**
Total equity		**156 063**	**179 909**	**166 449**
Provisions				
Deferred tax	9	0	41	4 796
Total provisions		**0**	**41**	**4 796**
Liabilities				
Bonds	10	0	223 279	222 131
Other long-term liabilities	12	18 961	21 765	28 870
Total other long term liabilities		**18 961**	**245 044**	**251 001**
Current liabilities				
Current portion of bonds	10	224 426	0	1 854
Trade creditors		27 235	23 769	32 794
Public duties payable		26 237	32 759	32 333
Tax payable	9	987	4 211	4 119
Other short-term liabilities	11	101 385	119 497	108 791
Total current liabilities		**380 271**	**180 236**	**179 891**
Total liabilities		**399 232**	**425 321**	**435 688**
Total equity and liabilities		**555 295**	**605 230**	**602 137**

CEGAL GROUP AS

31 December 2016
Stavanger, 27 April 2017

Henning Vold Chairman	**Arne Kristoffer Norborg** Board member	**Per-Ola Baalerud** Board member
Frank Garneng Board member	**Stian Vemmestad** Board member	**Ketil Anders Waagebø** Board member
Ole Johannes Rossebø Board member		**Svein Torgersen** CEO

CEGAL GROUP AS
Amount in NOK thousands

CASH FLOW STATEMENT – FOR THE YEAR ENDED 31 DECEMBER	2016	2015
Profit/(loss) before tax	-21 604	-144
Taxed paid	-4 211	-4 672
Impairment	563	0
Depreciation and amortization	69 709	73 445
Interest income	-1 197	-1 317
Interest expense	19 105	19 395
Changes in trade receivable	35 941	430
Changes in trade creditors	3 465	-9 042
Interest received	1 197	1 317
Interest paid	-19 105	-19 395
Changes in other current balance sheet items	-17 505	-6 358
Net cash flow from operating activities	**66 358**	**53 658**
Proceeds from sale of tangible fixed assets	0	852
Purchase of tangible and intangible assets	-31 035	-30 703
Acquisition of group companies	0	-34 071
Net cash flow from investing activities	-31 035	-63 922
Increase/(decrease) short term loan to financial institutions	0	-1 854
Payment financial lease	-32 023	-36 686
Sale/(purchase) own shares	-581	7 959
Issue of share capital	0	5 190
Net cash flow from financing activities	**-32 604**	**-25 391**
Net change in cash and cash equivalents	**2 720**	**-35 654**
Cash and cash equivalents 01.01	**43 176**	**78 830**
Cash and cash equivalents 31.12	**45 895**	**43 176**

CEGAL GROUP AS
Amount in NOK thousands

STATEMENT OF CHANGES IN EQUITY	SHARE CAPITAL	OWN SHARES	SHARE PREMIUM RESERVE	OTHER EQUITY	TOTAL EQUITY
Equity as at 01.01 2015	1 246	-20	134 536	30 687	166 449
Profit for the year				1 497	1 497
Share capital increase	12	0	5 178	0	5 190
Purchase/sale of own shares	0	15	0	7 944	7 959
Currency translation differences				-1 186	-1 186
Equity as at 31.12.2015	**1 258**	**-5**	**139 714**	**38 942**	**179 909**
Equity as at 01.01.2016	1 258	-5	139 714	38 942	179 909
Loss for the year				-14 889	-14 889
Purchase/sale of own shares		-1		-580	-581
Currency translation differences				-8 376	-8 376
Equity as at 31.12 2016	**1 258**	**-6**	**139 714**	**15 097**	**156 063**

NOTES TO THE GROUP ACCOUNTS 2016

NOTE 1 ACCOUNTING PRINCIPLES

The company's financial statements have been prepared in accordance with the Norwegian Accounting Act § 3-9 and specific regulations, related to what is often referred to as "the simplified application of international financial reporting standards (IFRSs)", issued by the Ministry of Finance January 21, 2008. Under this regulation, recognition and measurement rules are based on international financial reporting standards (IFRSs), while presentation and disclosures are in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

1.1 BASIS FOR CONSOLIDATION

The consolidated financial statements comprise of the following entities:

- Cegal Group AS
- Cegal AS
- Cegal Geoscience AS
- Cegal LTD
- Cegal Americas LCC
- Cegal Canada
- Cegal FZ LCC
- Escape Business Technologies LTD

Subsidiaries are companies in which the Group has a controlling interest. A controlling interest is normally achieved when the Group owns more than 50% of the shares in the company and is also in the position to exercise control over the company. The consolidated financial statements are prepared such that the group of companies are presented as a single economic entity. Intercompany transactions have been eliminated in the preparation of the consolidated financial statements. The accounting principles for the consolidated financial statements have been applied consistently for all periods presented.

Acquired subsidiaries are accounted for on the basis of the parent company's acquisition cost. The acquisition costs are attributed based on fair values of the separable net assets acquired. Values in excess of fair value of the separable net assets are presented as goodwill in the statement of financial position. Subsidiaries are consolidated in the financial statements from the date control is achieved until the date control ceases to exist.

1.2 SALES REVENUE

Revenue from services is recognized when performed. Revenue from sale of goods is recognized at transfer of risk and control.

Licence fee related to software are recognized on a straight line basis over the contract subscription period. Sale of perpetual license rights is recognized when the customer gets access to the software.

Maintenance revenue is recognized on a straight line basis over the maintenance period.

1.3 STATEMENT OF FINANCIAL POSITION CLASSIFICATION

Current assets and liabilities comprise items due within one year, or items related to the normal operating cycle. Other assets and liabilities are classified as non-current assets and long-term debt, respectively.

Current assets are valued at the lower of cost and net realisable value. Current liabilities are recognized at nominal value.

Fixed assets are initially measured at cost, and subsequently at cost less accumulated depreciation and impairment charges. Long-term liabilities are recognized at amortized cost.

1.4 TANGIBLE ASSETS

Tangible assets are capitalized and depreciated over the estimated useful economic life. Direct maintenance costs are expensed as incurred, whereas improvements and upgrading are capitalized and depreciated together with the underlying asset. If the carrying amount of a non-current asset exceeds the estimated recoverable amount, the asset is written down to its recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present values.

1.5 INTANGIBLE ASSETS

Intangible assets comprise of software. Software is identifiable and controlled by the company. An intangible asset is capitalized providing that a future economic benefit associated with development of the intangible asset can be established and costs can be measured reliably. The intangible assets are depreciated over the estimated useful economic life. If the carrying amount of an intangible asset exceeds the estimated recoverable amount, the asset is written down to its recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present values.

1.6 TRADE AND OTHER RECEIVABLES

Trade receivables and other current receivables are recorded in the statement of financial position at nominal value less provisions for doubtful debts. Provisions for doubtful debts are calculated on the basis of individual assessments.

1.7 INCOME TAX

Tax expenses in profit and loss comprise of both tax payable for the accounting period and changes in deferred tax. Deferred tax is calculated using the tax percentage in the country the subsidiary is in, on the basis of existing temporary differences between accounting profit and taxable profit as well as losses carried forward at year end. Net deferred tax assets are recorded in the statement of financial position to the extent it is more likely than not that the tax assets will be utilized.

1.8 LONG TERM DEBT

Costs related to acquiring long-term debt are capitalized and amortized over the loan term using the effective interest rate method.

1.9 LEASING / LEASES

Leases where the company assumes all the risks and rewards associated with ownership of the asset are financial leases. At the inception of the lease, finance leases are recognized at the lower of their fair value and the present value of the minimum lease payments, less accumulated depreciation and impairment losses. When calculating the lease agreement's present value, the interest rate implicit in the lease is used. Direct costs associated with the lease are included in the asset cost.

Leases where substantially all the risks and rewards associated with ownership of the asset is not transferred to the Company, are classified as operating leases. Lease payments are classified as operating costs and expensed as incurred over the contract period.

1.10 BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received. The consideration paid in a business combination is measured at fair value at the acquisition date.

When acquiring a business all financial assets and liabilities are assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Goodwill is recognised as the difference between the consideration transferred, including an equivalent amount for any non-controlling interest, and the net of the acquisition-date fair values of identifiable assets acquired and liabilities assumed. Goodwill is not depreciated, but tested for impairment at least annually. For goodwill impairment purposes, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from synergies from the business combination.

1.11 CASH FLOW STATEMENT

The cash flow statement is presented using the indirect method. Cash and cash equivalents include cash, bank deposits and other short term highly liquid investments with original maturities of three months or less.

1.12 EBITDA (EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION)

In accordance with IAS.85 and IAS.85A, the Group has presented an additional (non-GAAP) subtotal in the statement of comprehensive income. This subtotal is considered relevant to the understanding of the entity's financial performance.

1.13 AMENDMENTS TO STANDARDS AND INTERPRETATIONS WITH A FUTURE EFFECTIVE DATE

Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective are disclosed below. The group's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval.

IFRS 9 - FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. The standard, including rules for classification and measurement, hedge accounting and impairment, has been approved by the EU and will be implemented with effect from 1 January 2018.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The IASB has published a new standard for revenue recognition, IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations for revenue recognition. The core principle of IFRS 15 is that revenue is recognised to reflect the transfer of contracted goods or services to customers, and then at an amount that reflects the consideration the company expects to be entitled to in exchange for those goods or services. With a few exceptions, the standard applies to all income-generating contracts with customers and provides a model for the recognition and valuation of the sale of certain non-financial assets (e.g. sale of property, plant and equipment).

IFRS 15 is to be implemented either by applying the fully retrospective method or the modified retrospective method. The standard will be implemented with effect from 1 January 2018.

The Group is currently evaluating the potential effects of the implementation of IFRS 15 and, based on the preliminary assessment, the implementation will not have a significant impact on the financial statements, but may for some projects, affect the timing of revenue recognition.

IFRS 16 LEASES

The International Accounting Standards Board (IASB) published in January 2016 a new standard for leases (IFRS 16 Leases). The new standard requires that the lessee recognize assets and liabilities for almost all leases. The EU has not yet approved the standard, but it is expected that it will be applicable from the fiscal year 2019. Early implementation will be possible if the new standard for revenue recognition, IFRS 15 Revenue from contracts with customers is applied simultaneously with, or prior to the implementation of IFRS 16 Leases. The Group expects to apply IFRS 16 with effect from 1 January 2019.

CEGAL GROUP AS

NOTE 2 EXPLANATION OF TRANSITION TO IFRS

This is the group's first financial statements presented in accordance with the simplified application of IFRSs.

The accounting principles described in note 1 have been used to prepare the group's financial statements for 2016, comparable figures for 2015 and the opening balance as at 1 January 2015, which is the company's date of transition from Norwegian accounting principles (NGAAP) to simplified IFRS.

In connection with the preparation of the IFRS opening balance sheet, the group has made adjustments to the accounting figures compared to those reported earlier in the group financial statements that were prepared in accordance with NGAAP. The effect of the transition from NGAAP to simplified IFRS on the group's financial position, the group's results and the group's cash flow is explained in greater detail in this note.

CEGAL GROUP AS
Amount in NOK thousands

RECONCILIATION OF TRANSITIONAL EFFECTS ON STATEMENT OF COMPREHENSIVE INCOME	NOTE	2015 NGAAP	EFFECT ON TRANSITION TO IFRS	2015 IFRS
Revenue				
Sales revenue	C	564 729	4 891	569 620
Total revenue		**564 729**	**4 891**	**569 620**
Operating expenses				
Cost of sale	C	150 306	978	151 284
Payroll expenses		271 754		271 754
Other operating expenses		59 424		59 424
Operating expenses		**481 484**	**978**	**482 462**
EBITDA		**83 245**	**3 913**	**87 158**
Depreciation and amortization	A	101 660	-28 215	73 445
Operating profit/-loss		**-18 415**	**32 128**	**13 713**
Financial income and expenses				
Other financial income		27 951		27 951
Interest expenses		19 395		19 395
Other financial expenses		22 413		22 413
Net financial items		**-13 857**	**0**	**-13 857**
Loss before tax		**-32 272**	**32 128**	**-144**
Tax on ordinary result	C	-2 541	900	-1 641
Net profit or loss for the year		**-29 731**	**31 228**	**1 497**

CEGAL GROUP AS
Amount in NOK thousands

RECONCILIATION OF TRANSITIONAL EFFECTS ON STATEMENT OF FINANCIAL POSITION AS OF JANUARY 1 2015	NOTE	NGAAP	EFFECT ON TRANSITION TO IFRS	IFRS
Assets				
Intangible assets				
Goodwill	A	203 968	14 086	218 054
Software		89 770		89 770
Total intangible assets		**293 738**	**14 086**	**307 824**
Tangible assets				
Servers, office furniture, etc		64 789		64 789
Total tangible assets		**64 789**	**0**	**64 789**
Financial assets				
Other receivables		1 853		1 853
Total financial assets		**1 853**	**0**	**1 853**
Non-current assets		**360 381**	**14 086**	**374 467**
Current Assets				
Trade receivables		127 429		127 429
Other receivables	B	14 423	-11 688	2 735
Prepayments	B, C		18 677	18 677
Total current assets		**141 852**	**6 989**	**148 841**
Cash and cash equivalents		78 830		78 830
Total current assets		**220 682**	**0**	**220 682**
Total assets		**581 062**	**21 075**	**602 137**

CEGAL GROUP AS
Amount in NOK thousands

RECONCILIATION OF TRANSITIONAL EFFECTS ON STATEMENT OF FINANCIAL POSITION AS OF JANUARY 1 2015	NOTE	NGAAP	EFFECT ON TRANSITION TO IFRS	IFRS
Equity and liabilities				
Paid-in capital				
Share capital		1 246		1 246
Share premium reserve		134 536		134 536
Own shares		-20		-20
Total paid-in capital		**135 762**	**0**	**135 762**
Retained earnings				
Other equity	A, C	38 743	-8 056	30 687
Total retained earnings		**38 743**	**-8 056**	**30 687**
Total equity		**174 505**	**-8 056**	**166 449**
Provisions				
Deferred tax	C	10 608	-5 812	4 796
Total provisions		**10 608**	**-5 812**	**4 796**
Liabilities				
Bonds		222 131		222 131
Other long-term liabilities		28 870		28 870
Total other long term liabilities		**251 001**	**0**	**251 001**
Current liabilities				
Liabilities to financial institutions		1 854		1 854
Trade creditors		32 794		32 794
Public duties payable		32 333		32 333
Tax payable		4 119		4 119
Other short-term liabilities	C	73 848	34 943	108 791
Total current liabilities		**144 948**	**34 943**	**179 891**
Total liabilities		**406 557**	**29 131**	**435 688**
Total equity and liabilities		**581 062**	**21 075**	**602 137**

CEGAL GROUP AS
Amount in NOK thousands

RECONCILIATION OF TRANSITIONAL EFFECTS ON STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31 2015	NOTE	NGAAP	EFFECT ON TRANSITION TO IFRS	IFRS
Assets				
Intangible assets				
Goodwill	A	214 914	42 311	257 225
Software		85 058		85 058
Total intangible assets		**299 972**	**42 311**	**342 283**
Tangible assets				
Servers, office furniture, etc		63 231		63 231
Total tangible assets		**63 231**	**0**	**63 231**
Financial assets				
Other receivables		2 266		2 266
Total financial assets		**2 266**	**0**	**2 266**
Non-current assets		**365 469**	**42 311**	**407 780**
Current Assets				
Trade receivables		126 999		126 999
Other receivables	B	20 823	-15 373	5 450
Prepayments	B, C		21 826	21 826
Total current assets		**147 822**	**6 452**	**154 274**
Cash and cash equivalents		43 176		43 176
Total current assets		**190 998**	**6 452**	**197 450**
Total assets		**556 466**	**48 763**	**605 230**

CEGAL GROUP AS
Amount in NOK thousands

RECONCILIATION OF TRANSITIONAL EFFECTS ON STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31 2015	NOTE	NGAAP	EFFECT ON TRANSITION TO IFRS	IFRS
Equity and liabilities				
Paid-in capital				
Share capital		1 258		1 258
Share premium reserve		139 714		139 714
Own shares		-5		-5
Total paid-in capital		**140 967**	**0**	**140 967**
Retained earnings				
Other equity	A, C	17 456	21 485	38 942
Total retained earnings		**17 456**	**21 485**	**38 942**
Total equity		**158 424**	**21 485**	**179 909**
Provisions				
Deferred tax	C	5 024	-4 984	41
Total provisions		**5 024**	**-4 984**	**41**
Liabilities				
Bonds		223 279		223 279
Other long-term liabilities		21 765		21 765
Total other long term liabilities		**245 044**	**0**	**245 044**
Current liabilities				
Liabilities to financial institutions		0		0
Trade creditors		23 769		23 769
Public duties payable		32 759		32 759
Tax payable		4 211		4 211
Other short-term liabilities	C	87 235	32 262	119 497
Total current liabilities		**147 974**	**32 262**	**180 236**
Total liabilities		**398 043**	**27 278**	**425 321**
Total equity and liabilities		**556 466**	**48 763**	**605 230**

CEGAL GROUP AS
Amount in NOK thousands

RECONCILIATION OF TRANSITIONAL EFFECTS ON STATEMENT OF CASH FLOW	NOTE	2015 NGAAP	EFFECT ON TRANSITION TO IFRS	2015 IFRS
Profit/(loss) before tax	A, C	-32 272	32 128	-144
Taxed paid		-4 672		-4 672
Depreciation	A	101 660	-28 215	73 445
Interest income	D	0	-1 317	-1 317
Interest expense	D	0	19 395	19 395
Changes in trade receivable		430		430
Changes in trade creditors		-9 042		-9 042
Changes in other current balance sheet items	C	-2 462	-3 913	-6 375
Interest received	D	0	1 317	1 317
Interest paid	D	0	-19 395	-19 395
Net cash flow from operating activities		**53 659**	**0**	**53 659**
Proceeds from sale of tangible fixed assets		852		852
Purchase of tangible and intangible assets		-30 703		-30 703
Acquisition of group companies		-34 071		-34 071
Net cash flow from investing activities		**-63 922**	**0**	**-63 922**
Increase/(decrease) short term loan to financial institutions		-1 854		-1 854
Payment financial lease		-36 686		-36 686
Payment of dividend		0		0
Sale/(purchase) own shares		7 959		7 959
Issue of share capital		5 190		5 190
Net cash flow from financing activities		**-25 391**	**0**	**-25 391**
Net change in cash and cash equivalents		-35 654	0	-35 654
Cash and cash equivalents 01.01		78 830		78 830
Cash and cash equivalents 31.12		43 176		43 176

CEGAL GROUP AS
Amount in NOK thousands

RECONCILIATION OF TRANSITIONAL EFFECTS ON STATEMENT OF CHANGES IN EQUITY	NOTE	SHARE CAPITAL	OWN SHARES	SHARE PREMIUM RESERVE	OTHER EQUITY	TOTAL EQUITY
Equity as at 31.12 2014 - NGAAP		1 246	-20	134 536	38 743	174 505
Not deferred maintenance revenue	E				-4 428	-4 428
Change in goodwill allocation (IFRS 3)	A				14 086	14 086
Revenue recognition - software license subscriptions	C				-17 714	-17 714
Equity as at 01.01 2015 - IFRS		**1 246**	**-20**	**134 536**	**30 687**	**166 449**
Equity as at 31.12 2015 - NGAAP		1 258	-5	139 714	17 457	158 424
Not deferred maintenance revenue	E				-4 428	-4 428
Change in goodwill allocation (IFRS 3)	A				14 086	14 086
Revenue recognition - software license subscriptions	C				-17 714	-17 714
Reversal of (2015) amortisation - goodwill	A				28 215	28 215
Revenue recognition (2015) - software license subscriptions	C				3 013	3 013
Currency translation differences	C				-1 687	-1 687
Equity as at 31.12 2015 - IFRS		**1 258**	**-5**	**139 714**	**38 942**	**179 909**

CEGAL GROUP AS

A GOODWILL

The Group has used IFRS 3 retrospectively to past business combinations. The effect at the opening balance (1 January 2015) on goodwill amounts to NOK 14 086, with a corresponding effect on retained earnings.

Under NGAAP goodwill has been amortized. The amortization of goodwill in the NGAAP financial statements for 2015 amounted to NOK 28 225. This amount has been reversed as a remeasurement item in the 2015 IFRS financial statements.

B PREPAID EXPENSES

In the NGAAP financial statements, prepaid expenses have been classified as other receivables. According to the IFRS framework, a "receivable" that does not lead to a future inflow of cash to the company, is not considered to be a receivable. In the IFRS financial statements prepayments are specified in a separate balance sheet item.

C REVENUE FROM SOFTWARE LICENSE SUBSCRIPTIONS

Under previous GAAP, revenues from software license subscriptions were recognized when the software was delivered (risk and control related to the software transferred to the customer). In the IFRS financial statements, revenues from software license subscriptions are recognized on a straight line basis over the contract subscription period. Royalty costs related to software licenses are, correspondingly, recognized on a straight line basis over the contract subscription period.

D PRESENTATION OF INTEREST

Cash flow from interest received and paid shall according to IFRS be disclosed separately.

E NOT DEFERRED MAINTENANCE REVENUE

Maintenance revenue related to subscriptions were not recognized linear over the subscription period. Estimated effect per 01.01.15 is NOK 4 428.

CEGAL GROUP AS
Amount in NOK thousands

NOTE 3 ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies in according to simplified IFRS, management has made several judgements and estimates. All estimates are assessed to the most probable outcome based on the management´s best knowledge. Changes in key assumptions may have significant effect and may cause material adjustments to the carrying amounts of assets and liabilities, equity and profit for the year.

The company's most important accounting estimates are the following items:

BALANCE SHEET ITEM	NOTE	ESTIMATE/ASSUMPTIONS	NET BOOK VALUE
Goodwill	4,16	Net present value of expected future cash flow	249 856
Software	4	Net present value of expected future cash flow	76 755
Tangible assets	5	Net present value of expected future cash flow	60 488
Deferred tax asset	9	Net present value of expected future cash flow	7 719

Depreciation of tangible and intangible fixed assets
Depreciation is based on management's estimate of useful life. Such estimates may change as a result of technological developments, competition, changes in market conditions and other matters. This may cause change in the estimated useful life and accordingly in depreciation.

Impairment of goodwill and other assets
The Group tests goodwill for impairment annually. The book value of goodwill in the Group's cash-generating units (CGU) is measured against the value in use of goodwill in these units. The recoverable amount from cash generating units is determined through calculations of value in use. These calculations are based on discounted cash flows that involve uncertainty and require the use of estimates. A change in the yield requirement used for discounting future cash flows will affect the book value of goodwill. An increase in the yield requirement will, in isolation, cause a lower value in use which in turn will cause a fall in the value of goodwill.

Other tangible and intangible assets are tested for impairment to the extent there are indications of a material loss of value.

Capitalisation of development projects (software)
When capitalising development costs that relate to the use of internal resources, costs are estimated using an hourly rate based on the direct costs per employee. In the event of any indication of the need for a write-down in respect of an individual development project, the recoverable amount is tested against the book value. The recoverable amount assigned to the development project is determined on the basis of calculations of value in use. These calculations are based on discounted future cash flows that involve uncertainty and require the use of estimates. A change in the forecast revenue or margin used when estimating future cash flows will affect the estimated value of the development project in question.

Deferred tax asset
Deferred tax assets are recognised when it is probable that sufficient future taxable profits exists and can be utilized towards the deferred tax assets. The parent company, Cegal Group As has significant tax loss carry forwards at the balance sheet date as a result of previous periods losses. As a consequence, it is uncertain when future taxable profits can be reported, however, the management and the board believes that future taxable profits will be sufficient to make use of the tax loss, and a deferred tax asset for the parent company and correspondingly for the group can be recognized in the financial statement for 2016. In addition, the group has tax losses in Canada and Dubai. Due to low activity in Canada and Dubai, the management and the board believes that a deferred tax asset for these operations cannot be recognized in the financial statements for 2016.

CEGAL GROUP AS
Amount in NOK thousands

NOTE 4 INTANGIBLE ASSETS

	SOFTWARE
Acquisition cost at 01.01	124 711
Additions	22 934
Acquisition cost 31.12.	147 645
Acc. amortization at 01.01.	39 652
Impairment	563
Amortization for the year	30 675
Net carrying amount at 31.12.	76 755
Useful economic life	3-5 years
Amortization plan	Linear

Goodwill

Recognized goodwill is NOK 249 856. The goodwill relates to the acquisition of the subsidiaries Cegal AS, Unitron AS, Escape Business Technologies Ltd and Cegal Geoscience AS with subsidiaries. Unitron AS was in 2012 merged into Cegal AS. Cegal Geoscience AS with subsidiaries was acquired in 2014. Escape Ltd was acquired in 2015. Total acquisition cost was NOK 266 747 and £ 2 996. Under previous GAAP, goodwill was amortized over 10 years. At the date of transition to IFRS (1 January 2015), accumulated amortization was KNOK 69 038. Book value of goodwill changes due to goodwill amount of £ 2996 is valued at exchange rate per year end.

The goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with IAS 36 (IFRS 3.54, IAS 36.10). Consequently, the goodwill has been tested for impairment at the date of transition and at year end 2015 and 2016.

CEGAL GROUP AS
Amount in NOK thousands

NOTE 5 TANGIBLE ASSETS

	FINANCIAL LEASING	TANGIBLE ASSETS	TOTAL
Acquisition cost at 01.01	135 322	76 829	212 151
Additions	28 828	8 101	36 929
Translation differences	0	-1 640	- 1 640
Disposals	-257	- 1 171	-1 428
Acquisition cost 31.12	163 893	82 119	245 874
Acc. depreciation 01.01	88 720	59 916	148 636
Translation differences	0	1 180	1 180
Acc. depreciation on disposals	0	1 127	1 127
Depreciation for the year	30 494	8 541	39 058
Net carrying amount at 31.12	44 679	15 809	60 488
Useful economic life	2 - 5 years	2 - 5 years	
Depreciation plan	Linear	Linear	

NOTE 6 BANK DEPOSIT

The cash and deposits for the Group includes restricted funds of NOK 7 727 related to employee taxes as of 31 December 2016.

The Group has bank guarantees of NOK 18 393.

The Group has an unused bank overdraft facility of NOK 30 000. Accounts receivable, inventory and fixed assets in Cegal Group, Cegal AS and Cegal Geoscience AS are pledged as security for the bank overdraft facility. The security is limited to NOK 210 000. In 2017 the group has increased the overdraft facility to NOK 50 000.

The Cegal Group companies in Norway are organized in a group account structure where Cegal Group AS is the owner of the group accounts.

NOTE 7 OPERATING LEASE AGREEMENTS

The Group has of 31 December 2016 the following operating leasing agreements:

	2016
Facilities	19 089
Transportation, inventory, computer equipment	1 008
Total	20 097

Information about financial leasing, see note 12.

CEGAL GROUP AS
Amount in NOK thousands

NOTE 8 WAGE COSTS, NUMBER OF EMPLOYEES, REMUNERATION, LOANS TO EMPLOYEES AND AUDITOR'S FEE

WAGE COSTS	2016	2015
Salaries	220 606	241 789
Payroll tax	30 044	33 318
Pension costs	9 395	7 220
Other payments	10 174	13 057
Capitalized development cost	-22 844	-23 630
Total	**247 375**	**271 754**
The total number of employees in the company during the year:	315	341

MANAGEMENT REMUNERATION

	General manager	**General Board of Directors remuneration**
Salary	1 289	350
Pension cost	48	0
Other payments	17	0

The general manager has no agreements regarding severance pay.

The Group is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon"). The Group's pension scheme meets the requirements of that law. The Group has a defined contribution plan.

AUDITOR REMUNERATION HAS BEEN DIVIDED AS FOLLOWS	2016
Audit remuneration	661
Other services	200

VAT is not included in the figures of auditor's remuneration.

CEGAL GROUP AS
Amount in NOK thousands

NOTE 9 TAXES

SPECIFICATION OF TOTAL TAX COST	2016	2015
Total Payable tax	1 569	2 846
Correction previous years	- 639	0
Effect change of tax rate	155	- 435
Translation effect	- 150	392
Changes in deferred taxes	-7 650	- 4 444
Total tax cost for the year	**- 6 715**	**- 1 640**

SPECIFICATION OF BASE OF PAYABLE TAXES	2016	2015
Net income before tax	-21 604	144
Permanent differences	-3 852	1 026
Changes in temporary differences	13 356	14 856
Tax base pre loss carry forward	-12 100	15 739
Intercompany interest carry forward	2 466	0
Used previous year's tax loss carry forward	0	- 4 299
Base for payable tax	**-9 634**	**11 439**

SPECIFICATION OF BASE FOR DEFERRED TAX BENEFIT	2016	2015
Assets	16 353	29 121
Leasing	- 1 338	- 2 027
Long term debt	574	1 721
Short term debt	- 19 170	- 27 321
Loss carry forward	- 43 018	-18 038
Intercompany interest carried forward	-2 609	0
Temporary differences	**- 49 208**	**- 16 545**
Loss carry forward not recognized **	13 312	10 704
Other differences not basis for deferred tax asset	4 278	4 507
Basis for deferred tax	**- 31 618**	**- 1 333**
Deferred tax/- deferred tax assets	**- 7 719**	**41**

** Loss carry forward not recognized for 2015 relates to Cegal FZ LCC and Cegal Canada.

CEGAL GROUP AS
Amount in NOK thousands

RECONCILIATION EFFECTIVE TAX RATE	2016	2015
Expected income taxes, statutory rate 25 % (27 % 2015)	- 5 401	- 39
Correction previous years	- 639	0
Effect different tax rates	- 260	- 515
Effect change of tax rate	155	- 436
Translation effect	- 150	392
Change not booked deferred tax asset	284	- 1 319
Permanent differences	- 703	277
Total tax cost	**-6 715**	**- 1 640**

NOTE 10 LIABILITIES

REPAYMENT SCHEDULE LONG TERM LIABILITIES	2016	2015
Within one year	225 000	0
Between one and five years*	0	225 000
Total	**225 000**	**225 000**

* Cost related to acquiring the long term debt are capitalized and amortized over the loan period. Capitalized costs amounts to NOK 574 is classified as a reduction of bond loan.

On March 24, 2017 Cegal paid off the Stock Listed Bond Loan at Oslo Stock Exchange. The refinancing was secured by a long-term loan facility in SpareBank 1 SR-Bank. The total frame of the long-term financing is 200 MNOK split in two parts on 120 MNOK (A) and 80 MNOK (B). The (A) part of the financing is a amortizing loan with equal payment of installments over 5 years, part (B) is a bullet loan where the principal is due for payment after 5 years.

In addition to the long term financing an overdraft facility of 50 MNOK is secured and the bank have granted a leasing facility of 40 MNOK for potential future acquisitions. The new financing structure is subject to 3 separate loan covenants in relation to equity share, NIBD/12 LTM EBITDA, Current assets/Current liabilities.

CEGAL GROUP AS
Amount in NOK thousands

NOTE 11 SHORT TERM DEBT

SHORT TERM DEBT	2016
Deferred revenue	44 071
Salaries	24 997
Short term leasing	27 056
Other short term debt	5 261
Total	**101 385**

NOTE 12 FINANCIAL LEASE

REPAYMENT SCHEDULE	2016
Within one year	27 056
Between one and five years	18 961
Total	**46 017**

NOTE 13 SHARE CAPITAL AND SHAREHOLDER INFORMATION

SHARE CAPITAL	NUMBER OF SHARES	FACE VALUE	NOMINAL VALUE
A-shares	12 390 433	0,09 NOK	1 115 139
B-shares	1 587 017	0,09 NOK	142 832
Total	**13 977 450**		**1 257 971**

CEGAL GROUP AS
Amount in NOK thousands

MAIN SHAREHOLDERS PER 31.12	A-SHARES	B-SHARES	OWNERSHIP SHARE
Norvestor V LP	7 174 193	72 466	51,85 %
ST Innovation AS*	529 041	132 260	4,73 %
Garneng Kapital AS***	386 209	106 819	3,53 %
John Nygård	260 802	65 201	2,33 %
Dag Ydstebø	260 802	65 201	2,33 %
Sveinung Rage	260 802	65 201	2,33 %
Pagoda AS	229 134	62 371	2,09 %
Fivel Holding AS	224 771	61 639	2,05 %
Paleonor AS**	193 677	56 419	1,79 %
Reservoir Dimensions ApS	173 812	42 778	1,55 %
Splinetail AS	168 648	42 162	1,51 %
Wellwork Innovation AS****	144 055	42 499	1,33 %
Meah AS	133 370	35 606	1,21 %
Arve Osmundsen	45 263	105 613	1,08 %
Espen Espedal	119 342	31 079	1,08 %
Transalp Invest AS	149 664	0	1,07 %
Rune Aartun	116 782	31 070	1,06 %
Ole Johannes Rossebø, Board Member	117 759	29 865	1,06 %
Christian Cock	108 556	34 122	1,02 %
Robin Scott Sinclair Parkinson	104 323	30 087	0,96 %
Total	**10 901 005**	**1 112 458**	**85,96 %**
Other (less than 1% ownership)	**1 489 428**	**474 559**	**14,04 %**
Total number of shares	**12 390 433**	**1 587 017**	**100,00 %**

A-shares and B-shares have equal voting rights.

* Owned by general manager of Cegal Group AS
** Owned by board member Arne Kristoffer Norborg
*** Owned by board member Frank Garneng
**** Board member Stian Vemmestad owns shares in Wellwork Innovation AS

Board member Ketil Waagbø owns 105 195 shares.

CEGAL GROUP AS
Amount in NOK thousands

NOTE 14 RELATED PARTY TRANSACTIONS

Cegal Group AS has in 2016 bought consulting services for NOK 188 from Wellwork Innovation AS. Wellwork Innovation AS owns 1,33 % of the shares in Cegal Group AS. The consulting service was related to financial services.

NOTE 15
SALES REVENUE BY GEOGRAPHICAL MARKET AND AREA OF OPERATION

MARKET	2016	2015
Cloud	237 217	265 459
Cloud services	104 996	107 560
Hardware/Software	25 563	35 453
Software Products	87 619	94 396
Software Solutions	27 513	30 556
Geoscience consulting	22 041	32 423
Other revenues	1 928	3 773
Total Sales	**506 878**	**569 620**

DISTRIBUTED BY AREA OF OPERATION	2016
Norway, Continental Europe and Russia	413 920
UK and Africa	54 672
North and South America	27 995
Middle East and Asia Pacific	7 182
Other	3 108
Total Sales	**506 878**

CEGAL GROUP AS

NOTE 16 IMPAIRMENT TESTING OF GOODWILL

Recognised goodwill in the Group amounts to NOK 249 856 as of 31.12.2016. Goodwill relates to the acquisition of Cegal AS, Unitron AS, Escape Business Technologies LTD and Cegal Geoscience AS with subsidiaries.

Goodwill is tested for impairment by groups of cash-generating unit (CGU).

Goodwill is tested for impairment at least annually, or when there are indications of impairment.

The recoverable amount is set to the estimated value in use. The value in use is the net present value of the estimated cash flow before tax, using a discount rate reflecting the timing of the cash flows and the expected risk.

The following assumptions were utilised when calculating value in use as of 2016:

Discount rate	8,7 %
Growth rate	2,0-17,0 %
Growth in terminal value	2,5 %
Gross margin (average)	72,1 %

The value in use has been calculated by using projected cash flows based on the budgets approved by the Group Management, covering a five-year period. The projected cash flows are based on historical numbers and adding a moderate growth in the total market, our market share and the prices of our products.

Key assumptions for value in use calculations
The calculation of value in use for the cash generating units is most of all sensitive when it comes to the following assumptions:

Discount interest
The discount interest is based on weighted average cost of capital (WACC). The discount rate is reflecting the current market rate of return in the industry where the cash generating unit is being compared. The cost of equity has been calculated with the basis in the capital asset pricing model (CAPM).

Gross margin
The gross margin is based on an historical average margin.

Growth rate
The growth rate in the period is based on management's expectations on market development. Based on available information and knowledge about the market, management is expecting some increase in the growth for the next years.

COMPANY ANNUAL ACCOUNTS 2016

- The company income statement
- The company balance sheet
- Company cash flow statement
- Notes

CEGAL GROUP AS
Amount in NOK

Income statement 1 January – 31 December	NOTE	2016	2015
Operating expenses			
Payroll expenses	2	10 228 766	8 513 307
Depreciation of tangible and intangible fixed assets		280 724	54 454
Other operating expenses	2	6 467 067	5 857 791
Total operating expenses		**16 976 557**	**14 425 552**
Operating result		**-16 976 557**	**-14 425 552**
Financial income and expenses			
Income from investments in subsidiaries		4 356 699	16 533 786
Interest income from group companies		7 191 683	6 582 387
Other financial income		14 716 341	2 198 633
Other financial expenses	3	32 801 954	19 387 964
Net financial items		**-6 537 231**	**5 926 842**
Ordinary result before tax		**-23 513 788**	**-8 498 710**
Tax on ordinary result	8	**-5 566 871**	**-2 177 782**
Net profit or loss for the year		**-17 946 917**	**-6 320 928**
Allocated as follows			
Transferred to other equity	7	**-17 946 917**	**-6 320 928**

CEGAL GROUP AS
Amount in NOK

Amounts in NOK	NOTE	2016	2015
Fixed assets			
Intangible assets			
Deferred tax asset	8	6 970 090	1 403 219
Total intangible assets		**6 970 090**	**1 403 219**
Tangible assets			
Fixtures and fittings, tools, office machinery etc.		989 261	177 302
Total tangible assets		**989 261**	**177 302**
Financial assets			
Investments in subsidiaries	6	209 371 836	209 371 836
Loans to group companies	4	172 776 447	168 850 848
Total financial assets		**382 148 283**	**378 222 684**
Total fixed assets		**390 107 634**	**379 803 205**
Current assets			
Receivables			
Other receivables	4	52 082 945	50 614 308
Total accounts receivable		**52 082 945**	**50 614 308**
Cash and cash equivalents	5	**28 072 028**	**24 138 237**
Total current assets		**80 154 973**	**74 752 545**
Total assets		**470 262 607**	**454 555 750**

CEGAL GROUP AS
Amount in NOK

Amounts in NOK	NOTE	2016	2015
Equity			
Paid-in capital			
Share capital	7, 9	1 257 971	1 257 971
Own shares	7	-5 951	-4 629
Share premium reserve	7	139 713 959	139 713 959
Total paid-in capital		**140 965 979**	**140 967 301**
Retained earnings			
Other equity	7	31 112 050	49 639 764
Total retained earnings		**31 112 050**	**49 639 764**
Total equity		**172 078 029**	**190 607 065**
Liabilities			
Other long-term liabilities			
Bonds	3	224 426 250	223 278 750
Total other long term liabilities		**224 426 250**	**223 278 750**
Current liabilities			
Trade creditors	4	1 302 656	295 917
Public duties payable	5	740 292	568 451
Other short-term liabilities	4	71 715 380	39 805 567
Total current liabilities		**73 758 328**	**40 669 935**
Total liabilities		**298 184 578**	**263 948 685**
Total equity and liabilities		**470 262 607**	**454 555 750**

CEGAL GROUP AS
Amount in NOK

Amounts in NOK	2016	2015
Cash flow from operating activities		
Result before tax	-23 513 788	-8 498 710
Received payment for dividend	16 533 786	20 277 882
Recognized dividend from subsidiaries	-4 356 699	-16 533 786
Depreciation and amortization	280 723	54 454
Change account payables	1 006 739	-599 517
Effect of changes in exchange rates	7 504 672	0
Changes in other current balance sheet items	352 065	-1 731 183
Net cash flow from operating activities	**-2 192 502**	**-7 030 860**
Cash flow from investing activities		
Purchase of tangible fixed assets	-1 092 682	-231 756
Net change in intercompany loan	7 801 094	-31 444 759
Net cash flow from investing activities	**6 708 412**	**-31 676 515**
Cash flow from financing activities		
Issue of share capital	0	5 190 057
Sale/(purchase) of own shares	-582 119	7 959 098
Net cash flow from financing activities	**-582 119**	**13 149 155**
Net change in cash and cash equivalents	3 933 791	-25 558 220
Cash and cash equivalents at 01.01	24 138 237	49 696 457
Cash and cash equivalents at 31.12	**28 072 028**	**24 138 237**

NOTES TO THE COMPANY ACCOUNTS

NOTE 1 ACCOUNTING PRINCIPLES

The annual report is prepared according to the Norwegian Accounting Act 1998 and generally accepted accounting principles.

Subsidiaries and investment in associate

Subsidiaries and investments in associate are valued by the cost method in the company accounts. The investment is valued as cost of acquiring shares in the subsidiary, providing that write down is not required. Write down to fair value will be carried out if the reduction in value is caused by circumstances which may not be regarded as incidental, and deemed necessary by generally accepted accounting principles. Write downs are reversed when the cause of the initial write down are no longer present.

Dividends and other distributions are recognized in the same year as appropriated in the subsidiary accounts. If dividends exceed withheld profits after acquisition, the exceeding amount represents reimbursement of invested capital, and the distribution will be subtracted from the value of the acquisition in the balance sheet.

Balance sheet classification

Net current assets comprise creditors due within one year, and entries related to goods circulation. Other entries are classified as fixed assets and/or long term creditors.

Current assets are valued at the lower of acquisition cost and fair value. Short term creditors are recognized at nominal value.

Fixed assets are valued by the cost of acquisition, in the case of non incidental reduction in value the asset will be written down to the fair value amount. Long term creditors are recognized at nominal value.

Trade and other receivables

Trade receivables and other current receivables are recorded in the balance sheet at nominal value less provisions for doubtful debts. Provisions for doubtful debts are calculated on the basis of individual assessments. In addition, for the remainder of accounts receivables outstanding balances, a general provision is carried out based on expected loss.

Income tax

Tax expenses in the profit and loss account comprise both tax payable for the accounting period and changes in deferred tax. Deferred tax is calculated at 24 percent on the basis of existing temporary differences between accounting profit and taxable profit together with tax deductible deficits at the year end. Temporary differences both positive and negative, are balance out within the same period. Deferred tax assets are recorded in the balance sheet to the extent it is more likely than not that the tax assets will be utilized.

To what extent group contribution not is registered in the profit and loss, the tax effect of group contribution is posted directly against the investment in the balance.

Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other short term highly liquid placement with original maturities of three months or less.

Group bank account arrangement

Cegal Group AS has established a group bank account structure. The entities included in the arrangement are jointly liable for liabilities in the account arrangement.

Subsidiaries overdraft and deposits are classified as group receivables or liabilities. In the parent company, deposits/overdrafts from the group bank accounts are classified as bank deposits or bank overdrafts depending on financial status.

CEGAL GROUP AS
Amount in NOK

NOTE 2 WAGE COSTS, NUMBER OF EMPLOYEES, REMUNERATION, LOANS TO EMPLOYEES AND AUDITOR'S FEE

WAGE COSTS	2016	2015
Salaries	8 617 549	7 272 586
Payroll tax	1 262 264	949 939
Pension costs	266 383	244 848
Other payments	82 570	45 934
Total	**10 228 766**	**8 513 307**
The average number of employees	6	5

MANAGEMENT REMUNERATION	**General manager**	**Board of Directors**
Salary	1 288 521	350 000
Other renumeration	16 806	0

There are no agreements regarding severance pay.

The company is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon"). The company's pension scheme meets the requirements of that law. The company has a defined contribution plan.

AUDITOR REMUNERATION HAS BEEN DIVIDED AS FOLLOWS	2016
Audit remuneration	215 675
Other services	129 738
Total	**345 413**

VAT is not included in the figures of auditor's remuneration.

CEGAL GROUP AS
Amount in NOK

NOTE 3 LONG TERM LIABILITIES

	2016	2015
Within one year	225 000 000	0
Between one and five years	0	225 000 000
Total	**225 000 000**	**225 000 000**

Cost related to acquiring the long term debt are capitalized and amortized over the loan period. Capitalized costs amounts to NOK 573 750 is classified as a reduction of bond loan.

On March 24, 2017 Cegal paid off the Stock Listed Bond Loan at Oslo Stock Exchange. The refinancing was secured by a long term loan facility in SpareBank 1 SR-Bank. The total frame of the long-term financing is 200 MNOK split in two parts on 120 MNOK (A) and 80 MNOK (B). The (A) part of the financing is a amortizing loan with equal payment of installments over 5 years, part (B) is a bullet loan where the principal is due for payment after 5 years.

In addition to the long term financing an overdraft facility of 50 MNOK is secured and the bank have granted a leasing facility of 40 MNOK for potential future acquisitions. The new financing structure is subject to 3 separate loan covenants in relation to equity share, NIBD/12 LTM EBITDA, Current assets/Current liabilities.

NOTE 4 INTERCOMPANY BALANCE GROUP COMPANY AND ASSOCIATE

RECEIVABLES	2016	2015
Loans to group companies	172 776 447	168 850 848
Other receivables	51 385 093	50 144 353
Total	**224 161 540**	**218 995 201**

PAYABLES	2016	2015
Other short term payables	4 915 965	4 853 518
Accounts payable	625 088	19 651
Liability related to cash pool	65 537 060	33 555 751
Total	**71 078 113**	**38 428 920**

CEGAL GROUP AS
Amount in NOK

NOTE 5 BANK DEPOSIT

	2016
Restricted cash deposits	475 869

The Cegal Group companies in Norway are organized in a group account structure where Cegal Group AS is the owner of the group account. As of 31.12 there is a net receivable of 27 331 826. The Group has an unused overdraft facility of 30 000 000.

NOTE 6 INVESTMENT IN SUBSIDIARIES AND ASSOCIATE

COMPANY	ACQUISITION YEAR	LOCATION	SHARE OWNERS	NET PROFIT 2015*	EQUITY 31.12.15*	BOOK VALUE 31.12.16
Cegal AS	2011	Sandnes	100 %	22 941 043	24 392 099	151 484 660
Cegal Geoscience AS	2014	Sandnes	100 %	4 010 532	51 128 700	57 887 176
Total				**26 951 575**	**75 520 799**	**209 371 836**

* The audited financial statements for 2016 are not available per presentation of Cegal Group AS' company accounts.

NOTE 7 OWNERS EQUITY

	SHARE CAPITAL	OWN SHARES	SHARE PREMIUM RESERVE	OTHER EQUITY	TOTAL
Owner's equity 01.01.	1 257 971	-4 629	139 713 959	49 639 764	190 607 065
Profit for the year	0	0	0	-17 946 917	-17 946 917
Purchase of own shares	0	-1 322	0	-580 797	-582 119
Owner's equity 31.12.	**1 257 971**	**-5 951**	**139 713 959**	**31 112 050**	**172 078 029**

CEGAL GROUP AS
Amount in NOK

NOTE 8 INCOME TAXES

INCOME TAX EXPENSES	2016	2015
Too much/little allocated in previous year(s)	13 298	
Change in deferred tax	-5 580 169	-2 177 782
Total income tax expense	**-5 566 871**	**-2 177 782**

TAX BASE ESTIMATION	2016	2015
Ordinary result before tax	-23 513 788	-8 498 710
Permanent differences	31 429	17 082
Tax base pre loss carry forward	-23 482 359	-8 481 628
Change temporary differences	1 110 326	1 147 500
Tax base	**-22 372 033**	**-7 334 128**

TEMPORARY DIFFERENCES OUTLINED	2016	2015
Fixed assets	90 367	0
Long term debt	573 750	1 721 250
Loss carried forward	-29 706 160	-7 334 127
Total temporary differences	**-29 042 043**	**-5 612 877**
Deferred income tax asset (24% this year, 25% last year)	-6 970 090	-1 403 219

EFFECTIVE TAX RATE	2016
Expected income taxes, statutory tax rate 25%	-5 878 447
Too much/little allocated in previous year(s)	13 294
Permanent differences (25%)	7 857
This years tax effect of change in tax rate	290 425
Income tax expense	**-5 566 871**

CEGAL GROUP AS
Amount in NOK

NOTE 9 SHARE CAPITAL AND SHAREHOLDER INFORMATION

SHARE CAPITAL:	NUMBER OF SHARES	FACE VALUE	NOMINAL VALUE
A-aksjer	12 390 433	0,09 kr	1 115 139
B-aksjer	1 587 017	0,09 kr	142 832
Total	**13 977 450**		**1 257 971**

MAIN SHAREHOLDERS PER 31.12:	A-SHARES	B-SHARES	OWNERSHIP SHARE
Norvestor V LP	7 174 193	72 466	51,85 %
ST Innovation AS*	529 041	132 260	4,73 %
Garneng Kapital AS***	386 209	106 819	3,53 %
John Nygård	260 802	65 201	2,33 %
Dag Ydstebø	260 802	65 201	2,33 %
Sveiung Rage	260 802	65 201	2,33 %
Pagoda AS	229 134	62 371	2,09 %
Fivel Holding AS	224 771	61 639	2,05 %
Paleonor AS**	193 677	56 419	1,79 %
Reservoir Dimensions ApS	173 812	42 778	1,55 %
Splinetail AS	168 648	42 162	1,51 %
Wellwork Innovation AS****	144 055	42 499	1,33 %
Meah AS	133 370	35 606	1,21 %
Arve Osmundsen	45 263	105 613	1,08 %
Espen Espedal	119 342	31 079	1,08 %
Transalp Invest AS	149 664	0	1,07 %
Rune Aartun	116 782	31 070	1,06 %
Ole Johannes Rossebø, Board Member	117 759	29 865	1,06 %
Christian Cock	108 556	34 122	1,02 %
Robin Scott Sinclair Parkinson	104 323	30 087	0,96 %
Total	**10 901 005**	**1 112 458**	**85,96 %**
Other (less than 1% ownership)	**1 489 428**	**474 559**	**14,04 %**
Total number of shares	**12 390 433**	**1 587 017**	**100,00 %**

A-shares and B-shares have equal voting rights.

* Owned by general manager of Cegal Group AS
** Owned by board member Arne Kristoffer Norborg
*** Owned by board member Frank Garneng
**** Board member Stian Vemmestad owns shares in Wellwork Innovation AS

Board member Ketil Waagbø owns 105 195 shares.

CEGAL GROUP AS

31 December 2016
Stavanger, 27 April 2017

Henning Vold
Chairman

Arne Kristoffer Norborg
Board member

Per-Ola Baalerud
Board member

Frank Garneng
Board member

Stian Vemmestad
Board member

Ketil Anders Waagebø
Board member

Ole Johannes Rossebø
Board member

Svein Torgersen
CEO

AUDITOR’S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Cegal Group AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Cegal Group AS, which comprise the financial statements for the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2016, the income statement, and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2016, statements of comprehensive income, cash flows, changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of Cegal Group AS have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2016 and their financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Director (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

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Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Stavanger, 12 May 2017
ERNST & YOUNG AS

Jan Kvalvik
State Authorised Public Accountant (Norway)

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