COMPANY REGISTRATION NUMBER SC243297

PGS EM LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019

PGS EM LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019

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PGS EM LIMITED
REPORT AND FINANCIAL STATEMENTS
COMPANY INFORMATION

Director	G Langseth
Auditor	Ernst & Young LLP Blenheim House Fountainhall Road Aberdeen AB15 4DT
Registered office	c/o Cameron McKenna LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2EN
Registered number	SC243297

PGS EM LIMITED
STRATEGIC REPORT

The director presents his Strategic Report for the year ended 31 December 2019.

Principal activities

The principal activity of the company is the development and commercial deployment of a system to provide geophysical services to the oil and gas industry.

The company is a member of the PGS Group ("the group"), a Norwegian registered oil services group providing geophysical services worldwide. The group provides a broad range of geophysical and reservoir services, including seismic data acquisition, processing, interpretation and field evaluation. It also possesses a substantial international MultiClient seismic data library.

Business review and future developments

The loss for the year after taxation is $6,367,000 (2018: $5,953,000). The director does not recommend payment of a dividend (2018: $nil).

The company's EM offering has been temporarily suspended from 1 January 2018. 2019 was the third consecutive year with growth in the seismic industry and contract services benefitted the most. MultiClient typically recovers first after a downturn, and sales started to improve in 2017. The MultiClient momentum continued in the subsequent year. 2019 was a year of recovery for contract services.

In 2020, the widespread disruption in the oil market and the significant reduction in the energy companies' 2020 budgets have impacted the seismic market, with a significant drop in revenues and available contracts. The company currently expects a challenging market for 2021.

Looking further out, oil companies will eventually have to continue exploring for oil and gas resources to meet energy demand and to compensate for the depletion rates from producing fields. The company's excellent reputation, unique technologies and solid market share in the higher-end market segment makes PGS an attractive contractor and partner for oil companies now and in the future.

The Board emphasizes that valuations in the financial statements and forward looking statements contained in this report are based on various assumptions made by management, depend on factors beyond its control, and are subject to risks and uncertainties. Accordingly, actual results may differ materially.

The company holds intangible assets amounting to $193,000 (2018: $271,000) comprising patents and licences relating to electromagnetic (EM) technology. During 2020 the company agreed to transfer the EM assets to PGS Geophysical AS, a fellow group company, at book value of $193,000.

Principal risks and uncertainties of the company

From the perspective of the company, the principal risks and uncertainties are so integrated with the principal risks of the group that they are not managed separately. Accordingly, the principal risks and uncertainties of the Petroleum Geo-Services Group, which include those of the company, are discussed below.

Principal risks and uncertainties of the group

The group is exposed to adverse changes in interest rates, which is managed through financial instruments such as interest rate swaps.

A portion of the group's foreign currency exchange risk on cash flows related to sales, expenses, financing and investing transactions in currencies other than the US dollar are hedged through forward currency exchange contracts.

Credit risk relating to the group's trade receivables is relatively limited due to the nature of the customer base and the historic low level of losses on trade receivables. Ongoing credit evaluations of customers are used to manage exposure to this type of risk.

Principal risks and uncertainties of the group ***(continued)***

Liquidity risk is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due. The PGS Group has entered into binding agreements with (i) lenders representing, in aggregate, 95.4% of its $350 million RCF and $522 million term loan B facility (ii) 100% of the finance parties under its $300 million export credit financing, which will extend its current near-term maturity and amortisation profile by approximately two years and strengthen the PGS Group's liquidity profile in the currently challenging operating environment. The transaction is expected to complete in Q1 2021. Reference is made to note 17 subsequent events impacting the group's liquidity position.

By operating seismic vessels, the group is exposed to commodity risk in the form of fuel price fluctuations. The group seeks to pass fuel price risk to customers on a majority of contract work. Demand for the group's products and services are heavily influenced by oil and gas prices and the focus areas of oil and gas companies' spending. The profitability of the group is subject to a number of operational risks, including increased competition, attractiveness of technology, changes in governmental regulations, licences and permits and adverse weather conditions.

The principal risks and uncertainties of the PGS Group, which include those of the company, are discussed in more detail on pages 38 and 39 of the group's annual report.

As the global economy is impacted by the health and economic crisis following the outbreak of the Covid-19 pandemic, Management continues to monitor the potential operational and financial impacts for the company.

Key performance indicators ("KPIs")

The directors of the PGS Group manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of PGS EM Limited. The development, performance and position of the group, which includes the company, is discussed on pages 33 to 42 of the group's annual report which does not form part of this report.

Signed on behalf of the Board by:

G Langseth
Director

29 January 2021

PGS EM LIMITED
DIRECTOR'S REPORT

The director presents his Report and the financial statements for the year ended 31 December 2019.

Results and dividends

The loss for the year after taxation is $6,367,000 (2018: $5,953,000). The director does not recommend payment of a dividend (2018: $nil).

Future developments

The future development of the business has been outlined in the Strategic Report.

Director of the company

The director who held office during the year was as follows:

G Langseth

Indemnification of directors

In accordance with the articles of association, the director has the benefit of indemnity provisions. In addition the PGS Group maintains a directors' and officers' liability insurance policy throughout the financial year, and up to the date of approval of the financial statements.

Employee involvement, disabled persons, health & safety

The company has developed a network for communicating with employees, including those in remote locations or at sea. Pertinent and topical information is distributed on a regular basis and channels for feedback are clearly established. Financial information is available from the parent company's web site and industry and technical news items are distributed and discussed at regular intervals.

The company will always give due consideration for job vacancies to disabled persons and, should an employee working in a harsh environment become disabled, full consideration will be given to retaining that person in alternative work wherever possible.

The company aspires to the highest standards of health, safety and regard for the environment. It participates in industry forums and maintains an active information and reporting system for areas of operation with particular risks.

Charitable and political donations

The company made no political or charitable donations during 2019 (2018: $nil).

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Business review section of the Strategic Report.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate.

The company is dependent for its working capital on funds provided to it by PGS ASA, the company's ultimate parent undertaking and is also highly dependent on a number of agreements with group companies for its operations, and in the event the other parties are not able to honour their commitments, that might render the company unable to complete ongoing projects and severely impact all its operations. The directors have considered the financial position of the company, including the centralized treasury arrangements with its ultimate parent company, PGS ASA as well as the financial position of PGS ASA.

PGS ASA has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements up to 31 March 2022, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. PGS ASA has however notified the company that such support may depend on its ability to agree on an extension of certain debt maturities that is currently entered into default.

As detailed in note 17, PGS ASA is, as of the date of this report, in default with respect to certain debt commitments and is depending on reaching a satisfactory resolution with its creditors to reschedule its debt. It is expected that the debt rescheduling will close during the course of Q1 2021,and in the meantime PGS ASA and its subsidiaries continue to operate business as usual by performing its other obligations, including making payments of interest, as they fall due.

Whist they are confident that the rescheduling of the PGS ASA debt will be achieved during the first quarter of 2021, the directors have concluded that the successful rescheduling of the PGS ASA debt constitutes a material uncertainty that casts significant doubt upon PGS ASA's ability to continue as a going concern and on its ability to continue to provide financial support. Therefore the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have obtained sufficient information in terms of the financial situation of PGS ASA to conclude that the going concern assumption is still appropriate, thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

Information to the auditor

The director at the date of approval of this report confirms that:

1. So far as the director is aware, there is no relevant audit information of which the auditor is unaware; and
2. the director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and Ernst & Young LLP will therefore continue in office.

Signed on behalf of the Board by:

....

G Langseth

Director

29 January 2021

PGS EM LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The director is responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PGS EM LIMITED

Opinion

We have audited the financial statements of PGS EM Limited for the year ended 31 December 2019 which comprise the Statement of Profit and Loss and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities 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.

Material uncertainty related to going concern

We draw attention to Note 3, "Accounting policies – Going concern", and Note 17 "Events since the balance sheet date" in the financial statements, which indicate that the company is dependent on financial support from PGS ASA, the ultimate parent to allow the company to continue its operations for the going concern period, and it is not certain that this support will be available. As stated in Notes 3 and 17, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Report and financial statements, other than the financial statements and our auditor's report thereon. The director is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PGS EM LIMITED *(continued)*

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the director 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 the director either intends to liquidate the company or to cease operations, or have 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 (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Kenneth MacLeod Hall (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
2 February 2021

PGS EM LIMITED
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2019

	Note	2019 $ 000	2018 $ 000
Revenue		-	-
Cost of sales		(75)	(79)
Gross loss		**(75)**	**(79)**
Administrative expenses		(11)	(120)
Operating loss	5	**(86)**	**(199)**
Interest payable	8	(6,281)	(5,754)
Loss before taxation		**(6,367)**	**(5,953)**
Taxation	9	-	-
Loss for the year		**(6,367)**	**(5,953)**
Other comprehensive income		-	-
Total comprehensive loss		**(6,367)**	**(5,953)**

The company's results are derived from continuing operations.

The notes on pages 12 to 21 form an integral part of these financial statements

PGS EM LIMITED
BALANCE SHEET
31 DECEMBER 2019

	Note	2019 $ 000	2018 $ 000
Long term assets			
Intangible assets	10	193	271
Current assets			
Debtors	11	224	264
Cash		6	-
Creditors: Amounts falling due within one year	12	(102,881)	(96,626)
Net current liabilities		**(102,651)**	**(96,362)**
Total assets less current liabilities		(102,458)	(96,091)
Net liabilities		**(102,458)**	**(96,091)**
Capital and reserves			
Called up share capital	13	14,854	14,854
Profit and loss account		(117,312)	(110,945)
Shareholders' deficit		**(102,458)**	**(96,091)**

These financial statements were approved by the Board on 29 January 2021, and signed on its behalf by:

G Langseth
Director

Registered number: SC243297

The notes on pages 12 to 21 form an integral part of these financial statements

PGS EM LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2019

	Share capital $ 000	Profit and loss account $ 000	Total $ 000
At 1 January 2019	14,854	(110,945)	(96,091)
Loss for the year	-	(6,367)	(6,367)
Other comprehensive income	-	-	-
Total comprehensive loss	-	(6,367)	(6,367)
At 31 December 2019	**14,854**	**(117,312)**	**(102,458)**

	Share capital $ 000	Profit and loss account $ 000	Total $ 000
At 1 January 2018	14,854	(104,992)	(90,138)
Loss for the year	-	(5,953)	(5,953)
Other comprehensive income	-	-	-
Total comprehensive loss	-	(5,953)	(5,953)
At 31 December 2018	**14,854**	**(110,945)**	**(96,091)**

The notes on pages 12 to 21 form an integral part of these financial statements

PGS EM LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019

1 General information

PGS EM Limited provides consulting services to the oil and gas industry. The company is a private company and is incorporated and domiciled in Scotland. The address of its registered office is c/o Cameron McKenna LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN.

2 Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of PGS EM Limited (the "company") for the year ended 31 December 2019 were authorised for issue by the board of directors on 29 January 2021 and the Balance Sheet was signed on the board's behalf by G Langseth.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') and in accordance with applicable accounting standards. The company's financial statements are presented in US dollars as this is the currency in which the company operates.

3 Accounting policies

The following accounting policies have been consistently applied in deciding the items which are considered material in relation to the financial statements.

Basis of preparation

The company has been determined to meet the criteria of a 'qualifying entity' under the definition in FRS 101. The financial statements in which the company is consolidated are available from the ultimate parent company as detailed in note 16.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because the share based payment arrangement concerns the instruments of another group entity;
- the requirements of IFRS 7 Financial Instruments: Disclosures,
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement,
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- *the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial* Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

3 Accounting policies *(continued)*

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Business review section of the Strategic Report.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate.

The company is dependent for its working capital on funds provided to it by PGS ASA, the company's ultimate parent undertaking and is also highly dependent on a number of agreements with group companies for its operations, and in the event the other parties are not able to honour their commitments, that might render the company unable to complete ongoing projects and severely impact all its operations. The directors have considered the financial position of the company, including the centralized treasury arrangements with its ultimate parent company, PGS ASA as well as the financial position of PGS ASA.

PGS ASA has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements up to 31 March 2022, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. . PGS ASA has however notified the company that such support may depend on its ability to agree on an extension of certain debt maturities that is currently entered into default.

As detailed in note 17, PGS ASA is, as of the date of this report, in default with respect to certain debt commitments and is depending on reaching a satisfactory resolution with its creditors to reschedule its debt. It is expected that the debt rescheduling will close during the course of Q1 2021, and in the meantime PGS ASA and its subsidiaries continue to operate business as usual by performing its other obligations, including making payments of interest, as they fall due.

Whist they are confident that the rescheduling of the PGS ASA debt will be achieved during the first quarter of 2021, the directors have concluded that the successful rescheduling of the PGS ASA debt constitutes a material uncertainty that casts significant doubt upon PGS ASA's ability to continue as a going concern and on its ability to continue to provide financial support. Therefore the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have obtained sufficient information in terms of the financial situation of PGS ASA to conclude that the going concern assumption is still appropriate, thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the USD exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into USD at the rates prevailing on the reporting period date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of realised and unrealised monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

3 **Accounting policies *(continued)***

Taxation

Income tax expense is comprised of current and deferred tax. Income tax is recognised in the Statement of Profit and Loss, except to the extent that it relates to items taken directly to the Statement of Other Comprehensive Income.

Current tax is the tax expected to be paid to or recovered from taxation authorities in respect of taxable income for the year, using tax rates enacted or substantially enacted during the period.

Deferred tax assets and liabilities are measured using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on tax rates that are expected to apply in the year of realisation or settlement, using tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is not recognised on temporary differences arising from the initial recognition of goodwill, or relating to investments in subsidiaries to the extent that the temporary difference can be controlled by the Company and will probably not reverse in the foreseeable future.

Deferred tax assets are recognized only when, on the basis of all available evidence, it can be regarded as probable that there will be sufficient taxable profits in the foreseeable future against which the asset can be utilised.

Deferred tax assets and deferred tax liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred taxes are related to the same taxable entity and the same taxation authority. Deferred tax assets and liabilities are classified as long-term in the Balance Sheet.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment. The cost of internally generated intangible assets is expensed as incurred.

Patents, licenses and technology are stated at cost less accumulated amortisation and accumulated impairment. Amortisation is calculated on a straight-line basis over the estimated period of benefit, ranging from one to fifteen years.

Impairment of intangibles

Intangible assets are reviewed to determine whether there is any indication of impairment. If such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. An asset's recoverable amount is the higher of (i) its fair value less cost to sell and (ii) its value in use. This determination is made for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the carrying amount is reduced to its recoverable amount and the impairment is recognised immediately and presented separately in the Statement of Profit and Loss and Other Comprehensive Income.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3 Accounting policies *(continued)*

Reversal of impairment is recognised if the circumstances that gave rise to the impairment no longer exist. The carrying amount of the asset is increased to the revised estimate of its recoverable amount. The increased carrying amount may not exceed the carrying amount that would have existed had no impairment been recognised for the asset. The reversal is presented separately in the Statement of Profit and Loss and Other Comprehensive Income.

Financial assets and liabilities

Financial assets and financial liabilities are recognised when the company becomes party to the contractual obligations of the relevant instrument. The company classifies its financial instruments in the following categories: at fair value through profit and loss, at fair value through Other Comprehensive Income or at amortised cost. The company determines the classification of financial instruments at initial recognition.

Financial instruments at fair value through profit and loss

This category comprises financial assets and liabilities held for trading, including all derivative instruments. Financial instruments in this category are initially recorded at fair value, and transaction costs are expensed in the Statement of Profit and Loss. Realised and unrealised gains and losses arising from changes in the fair value are included in the Statement of Profit and Loss in the period in which they arise.

Financial instruments at fair value through Other Comprehensive Income

On initial recognition, an election can be made to classify investments in equity instruments at fair value through Other Comprehensive Income. Financial instruments in this category are initially recognised at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognised in Other Comprehensive Income.

Financial instruments at amortised cost

Financial assets and liabilities in this category are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method less any allowance for impairment. This category includes accounts receivable, accounts payable and loans and other borrowings.

Impairment of financial assets

At each reporting date, the company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses. For accounts receivables and contract assets, the company uses a simplified approach in calculating expected credit losses. The company recognises a loss allowance using factors including aging of accounts, historical experience, customer concentration, customer creditworthiness and current industry and economic trends. An impairment loss, amounting to any difference between the carrying amount of the loss allowance and the expected credit losses at the reporting date, is recognized in the Statement of Profit and Loss.

4 Critical accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with FRS 101 requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities. In many circumstances, the ultimate outcome related to the estimates, assumptions and judgments may not be known for several years after the preparation of the financial statements. Actual amounts may differ materially from these estimates due to changes in general economic conditions, changes in laws and regulations, changes in future operating plans and the inherent imprecision associated with estimates.

Management do not consider there to be any sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5 Operating loss

Arrived at after charging/(crediting)

	2019 $ 000	2018 $ 000
Amortisation expense (Note 10)	78	77
Foreign exchange (gains) losses	(4)	23
Auditor's remuneration		
- Audit of the financial statements	4	3

6 Staff costs

The company had no employees in either year.

7 Directors' remuneration

The director did not receive any fees or remuneration for services as a director of the company during the financial year (2018: Nil).

The remuneration of the director is paid by the ultimate parent company, which makes no recharges to the company. The director acts in a group capacity only and does not allocate specific time to the company and therefore it is not possible to make an accurate apportionment of their emoluments in respect of the company.

8 Interest payable

	2019 $ 000	2018 $ 000
Interest payable on group loans	6,281	5,754

9 Taxation

There is no tax charge / credit on the loss for 2019 (2018 -nil)

(b) Factors affecting current tax charge

The tax on loss before tax for the year differs from the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are reconciled below:

	2019 $ 000	2018 $ 000
(Loss) before tax	(6,367)	(5,953)
Corporation tax at standard rate	(1,210)	(1,131)
Expenses not deductible for tax purposes	1,193	1,093
Tax losses on which no deferred tax asset has been recognised	-	69
Movement in temporary differences unrecognised for deferred tax	(25)	(31)
Group relief surrendered for nil consideration	42	-
Total tax charge	-	-

(c) Deferred tax

The company has carried forward temporary differences as shown below that are available indefinitely to be offset against future taxable profits. Deferred tax assets have been recognised in relation to those losses and other temporary differences where they satisfy the recognition criteria for deferred tax assets in line with FRS 101 'Reduced Disclosure Framework'.

As at 31 December 2019 and 31 December 2018, the deferred tax assets in respect of unrelieved losses, decelerated capital allowances and other temporary differences were not recognised due to the uncertainty as to when these will be recovered. The value of the unrecognised deferred tax assets being $11,545,000 as at 31 December 2019 in relation to unrelieved losses (2018 being $10,368,000), $125,000 as at 31 December 2019 in relation to decelerated capital allowances (2018 - $106,000) and $0 as at 31 December 2019 in relation to other temporary differences (2018 - $76,000).

Legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and from 19% to 17% from 1 April 2020 was included in the Finance Act 2016 which received Royal Assent on 15 September 2016. It is noted however, that the rate of corporation tax will remain at 19% from 1 April 2020. This measure (cancelling enacted cut to 17%) was made under a Budget resolution on 11 March 2020 which has statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

The deferred taxes at the statement of financial position date have been measured using these enacted rates.

10 Intangible assets

	Patents and licences $'000
Cost	
At 1 January 2019 and 31 December 2019	1,198
Amortisation	
At 1 January 2019	927
Charge for the year	78
At 31 December 2019	1,005
Carrying amount	
At 31 December 2019	193
At 31 December 2018	271

Patents and licences are amortised over 15 years, being the period until expiry of the legal rights.

11 Debtors

	2019 $ 000	2018 $ 000
Trade debtors	-	3
Amounts receivable from group undertakings	224	247
VAT recoverable	-	14
	224	264

Amounts receivable from other group undertakings are treated as trading balances and do not bear any interest.

12 Creditors

	2019 $ 000	2018 $ 000
Trade creditors	-	2
Amounts owed to ultimate parent undertaking	102,881	96,623
Amounts owed to other group undertakings	-	1
	102,881	96,626

Amounts owed by the ultimate parent undertaking, PGS ASA, are repayable on demand and unsecured, and bear interest at 3-month LIBOR plus 3% per annum.

Amounts owed by other group undertakings are treated as trading balances and do not bear interest.

13 Share capital

Allotted, called up and fully paid shares

	2019		2018	
	No.	**$ 000**	**No.**	**$ 000**
Ordinary shares of £1 each	7,424,388	14,854	7,424,388	14,854

14 Foreign exchange

The financial statements are presented in US Dollars. The exchange rate at 31 December 2019 applied was 1.3144 USD to 1.0 GBP.

15 Related party transactions

As a wholly owned subsidiary of PGS ASA the company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with other wholly owned group companies. There were no other related party transactions.

16 Ultimate parent undertaking

The company's immediate and ultimate parent undertaking is PGS ASA, a company registered in Norway.

The smallest and largest group in which the results of the company are consolidated is that headed PGS ASA. These financial statements are available upon request from PGS ASA, Lilleakerveien 4C, P.O. Box 251 Lilleaker, 0216 Oslo, Norway.

17 Events since the balance sheet date

The financial statements have been prepared based on conditions existing at 31 December 2019, including those events occurring subsequent to that date which provide evidence of conditions that existed at the end of the reporting period. The COVID-19 outbreak was declared a pandemic by the World Health Organisation during March 2020, after the reporting period, and accordingly no adjustments have been made to these financial statements as a result of its impact. The pandemic and the response of governments in dealing with it is impacting general activity levels, the economy and the operations of the company. The scale and duration of the impact of the pandemic remain uncertain at the date of this report, however it will have an adverse impact on the financial statements of the company in 2020 and potentially in future periods. At the date of this report, the Directors do not consider it is practical to provide a meaningful quantitative or qualitative estimate of the potential impact of the pandemic on the company.

Rescheduling of debt PGS ASA Group

Due to the dramatic negative market change caused by the Covid-19 pandemic, the PGS ASA Group (PGS / the PGS Group) is determined to extend its near term debt maturities and amortization profiles to support its liquidity position. On October 21, 2020, PGS announced that the Group has entered into binding agreements with (i) lenders representing, in aggregate, 95.4% of its $350 million RCF and ~$522 million term loan B facility ("TLB") (the "Lock-Up Agreement"); and (ii) 100% of the finance parties under its ~$300 million export credit financing ("ECF") (the "Consent and Amendment Agreement"). The Lock-Up Agreement and Consent and Amendment Agreement are subject to customary undertakings and termination events.

The main terms (the "Transaction") will, once consummated, enable the PGS Group to extend its current near-term maturity and amortization profile under its Revolving Credit Facility ("RCF")/TLB and ECF facilities by approximately two years. Together with the cost saving initiatives previously announced, the Transaction will strengthen PGS's liquidity profile in the currently challenging operating environment.

17 Events since the balance sheet date *(continued)*

The main terms include:

- The $135 million RCF due 2020, the $215 million RCF due 2023, and the ~$2 million TLB due 2021 will be converted into a new TLB on the same terms as the ~$520 million 2024 TLB
- Quarterly amortization payments of up to 5% per annum of the original principal amount of the ~$520 million 2024 TLB will be replaced by the new amortization payments described below
- The total debt under the new TLB facilities of ~$872 million (subject to any increase in principal due to payment-in-kind fees and any reduction in principal due to lenders electing to exchange part of their existing debt into new convertible bonds, see below) maturing in March 2024 will have the following amortization profile payable pro-rata to all TLB lenders:
  - ~$135 million amortization payment due in September 2022
  - $200 million amortization payment due in September 2023
  - ~$9 million quarterly amortization starting March 2023
- Quarterly amortization payments totalling ~$106 million due over the next two years under the ECF will be deferred and repaid over four quarters starting December 2022
- The current excess cash flow sweep for the RCF/TLB facilities will be replaced by an excess liquidity sweep for any liquidity reserve in excess of $200 million at each quarter end, with such amounts to be applied against (i) the deferred amounts under the ECF and (ii) the ~$135 million TLB amortization, until they have both been paid in full; thereafter, any liquidity reserve in excess of $175 million at each quarter end will be applied against the remaining TLB amortizations
- The financial maintenance covenants will be amended, with the net leverage ratio to be 4.5x through June 30, 2021, 4.25x through December 31, 2021, 3.25x through December 31, 2022 and 2.75x thereafter
- Strengthening of the lenders' security package
- Total fees across the lender groups of up to ~$7.6 million payable in cash and up to ~$9.9 million payable in kind. Costs for legal and financial advisors for PGS and the lender groups come in addition
- An up to ~NOK 116.2 million 3-year 5% unsecured convertible bond (the "CB") which can be converted into new PGS shares at NOK 3 per share (up to a maximum of 38,720,699 shares, equalling 10% of the currently outstanding PGS shares) will be issued by PGS. Lenders under the RCF and TLB facilities will have a pro rata preferential right to subscribe for the CB against conversion of a corresponding amount of their existing secured loans. To the extent the CB is not fully subscribed, certain lenders under the TLB will (i) subscribe for 80% of the unallocated amount for cash and (ii) have the right to subscribe for the remaining 20% of the unallocated amount for cash. PGS will be able to require that bondholders convert the CB into shares if the PGS share price exceeds NOK 6 for 30 consecutive trading days

As less than 100% of the RCF and TLB lenders consented to the Transactions, the amendments to the RCF and TLB will be implemented pursuant to an English law scheme of arrangement upon approval of the English Court, after obtaining the necessary majority creditor consent (being 75% by value and a majority in number of the total RCF and TLB voting in the Scheme) (the "Scheme"). The Scheme will enable the Transaction in respect of the RCF and TLB to be implemented and bind all RCF and TLB lenders (including those who vote against or do not vote). To date, lenders holding a sufficient amount of RCF and TLB debt to meet the relevant Scheme approval levels have already signed the Lock-up Agreement.

It is anticipated that the Transaction will close during the course of Q1 2021.

17 Events since the balance sheet date *(continued)*

The Group is currently in default under the RCF, TLB and ECF. With the above described agreements and to allow for implementation of the Transaction, a required majority of the lenders under the RCF and TLB, and 100% of the finance parties under the ECF, have agreed not to accelerate their debt due to the existence of defaults or take any enforcement action. The Group expects to be able to implement the Transaction either consensually or by way of a Scheme. However, if unsuccessful, the Group is potentially exposed to enforcement or other creditor actions from individual lenders or acceleration by a majority of RCF/TLB lenders and the ECF lenders, as well as by parties under certain other agreements. The Group is not presently in receipt of any notice concerning any hostile creditor action, and as noted above, the majority of its finance creditors have agreed to stand still whilst the above Transaction is being pursued; however in the event that enforcement action is taken or any of the relevant agreements are terminated, there is a risk that PGS ASA and a several of its subsidiaries will enter into insolvency. If so it is likely that the company will not be able to continue as a going concern.