General principles, implementation and reporting on Corporate Governance

The Group believes that good and sound corporate governance creates shareholder value and reduces risks, and has made a strong commitment to developing high standards of Corporate Governance. The Group has complied, and will continue to comply, with the Norwegian Code of Practice for Corporate Governance (the "Corporate Governance Code"), last revised on 30 October 2014, and which is available on the Norwegian Corporate Governance Committee's web site www.nues.no. The principles are also in accordance with section 3-3b of the Norwegian Accounting Act, which can be found at www.lovdata.no/all/nl-19980717-056.html. Magseis is viewing the development of high standards of Corporate Governance as a continuous process and will continue to focus on improving the level of Corporate Governance.

The Board of Directors has the overall responsibility for Corporate Governance at Magseis and ensures that the Group implements sound Corporate Governance.

Purpose and background

Good corporate governance is characterised by open, responsible communication and cooperation among the Company's owners, its board, and management, in the context of both short- and long-term value creation perspectives. The Magseis board want our shareholders, employees, customers, suppliers, financial associates, and governmental bodies, as well as society in general, to be confident and trust that Magseis is governed in a satisfactory fashion. The Board and election committee also have procedures to secure that the Board is sufficiently independent in the execution of its duties. Corporate governance deals with questions and principles related to the distribution of roles between governing bodies, as well as their respective areas of responsibility and authority. Sufficient attention must be given to the formulation of these roles and functions, in order to secure ample control, but at the same time to encourage innovation and entrepreneurship.

The purpose of this policy is to regulate the division of roles between shareholders, the Board of Directors and executive management and through the efficient use of the Company's resources help to ensure the greatest possible value creation over time in the best interests of shareholders, employees and other stakeholders.

Business of Magseis

The vision of Magseis is to reduce OBS cost to a level where it increases its potential market and becomes a widely used tool not only for field development, but also for exploration. This is reflected in Article 3 of the Articles of Association, which reads "The Company's business activities include development of geophysical equipment and methods, generation, marketing and sale of exclusive and non-exclusive geophysical exploration and other thereto naturally related activities".

The Group's core purpose is to significantly reduce the costs of OBS operations and broaden the scope where OBS can be used. Magseis wants to be their customers' first choice within field development and the exploration industry. In fulfilling this purpose, Magseis will create long-term value for their customers and shareholders.

Equity and dividends

The Group's equity as per 31 December 2015 amounts to USD 53.7 million, approx. 74% of the Group's total assets, and is considered adequate relative to the Company's financial objectives, overall strategy and risk profile. On a continuous basis, Magseis evaluates the available alternatives to ensure adequate liquidity for its prioritised project activities and to provide the required long-term financial strength and flexibility. To achieve its ambitious long-term growth objectives, it is likely that Magseis will need to raise additional capital in the years to come.

Magseis will over time develop a dividend policy including an appropriate payout to its shareholders. The Group is currently in a growth phase and has not yet distributed any dividends. As per 31 December 2015, the Company has no distributable equity and the Board of Directors will not propose a dividend for 2015 to the Annual General Meeting.

Equal treatment of shareholders and transactions with close associates

Magseis has one class of shares, and all shares carry equal voting rights. The shareholders exercise the highest authority in the Group through the General Meeting. All shareholders are entitled to submit items to the agenda, and to meet, speak, and vote at the General Meeting.

Freely negotiable shares

The Company's shares are not subject to ownership restrictions pursuant to law, licensing conditions or the Articles of Association and all shares are freely negotiable (with possible exceptions due to foreign law restrictions on sale and offering of securities).

General Meetings

Through the Company's General Meeting, the shareholders exercise the highest authority in the Group. General Meetings are held in accordance with the Code. All shareholders are entitled to submit items to the agenda, meet, speak and vote at General Meetings. The Annual General Meeting is held each year before the end of June. Extraordinary General Meetings may be called by the Board at any time.

The Board will seek to ensure that the resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting. The notice and supporting information, as well as a proxy voting form, are convened by written notice to all shareholders with known addresses and will normally also be made available on the Company's website www.magseis.com no later than 21 days prior to the date of the General Meeting. Shareholders who wish to receive the attachments may request the Group to mail such attachments free of charge.

Shareholders who are unable to be present in the meeting are encouraged to participate by proxy, and a person who will be available to vote on behalf of shareholders as their proxy will be nominated. Proxy forms will allow the proxy-holder to cast votes for each item separately. A final deadline for shareholders to give notice of their intention to attend the meeting or vote by proxy will be set in the notice for the meeting. Such deadline will be set as close as possible to the date of the General Meeting, and under any circumstance in accordance with the principles of section 5-3 of the Public Limited Companies Act.

The Chairman of the Board of Directors, the CEO, and the CFO will under normal circumstances, be present at the meeting in person. The Chairman for the meeting is independent. Notice, enclosures and protocol of meetings will be available on Magseis' website.

The General Meeting elects the members of the Board of Directors (employee-elected board members would be elected among employees), determines the remuneration of the members of the Board of Directors, approves the annual accounts and decides such other matters, which by law, by separate proposal or according to the Group's Articles of Association, are to be decided by the General Meeting. The General Meeting will normally vote separately on each candidate for election for the Board of Directors and any other corporate bodies to which members are elected by the General Meeting.

The minutes from General Meetings will be posted on the Group's Website within 15 days after the General Meeting has been held. Information that a General Meeting has been held will be made public as soon as possible after the end of the meeting.

Nomination committee

Magseis' nomination committee consists of two members where one is the Chairman of the Board of Directors and the other is independent of the Board of Directors and the executive management. The Code states that the majority of the committee's members should be independent of the Board of Directors and the executive management and that at least one member should not be a member of the Board of Directors. Since the Nomination Committee only consists of two members the Code's guidelines are assessed to be met. The requirement for having a nomination committee and the committee's duties are incorporated in the Company's Articles of Association. The General Meeting elects the members of the committee and approves the Nomination Committee Guidelines and remuneration. The Nomination Committee's duties are to submit to the General Meeting a proposal of candidates for election to the Board of Directors and to propose the fees to be paid to members of the Board of Directors.

Corporate assembly and Board of Directors: Composition and independence

According to Norwegian law, Magseis is not required to, and does not have a corporate assembly.

The Board of Directors has overall responsibility for the management of the Group. This includes a responsibility to supervise and exercise control of the Group's activities. As at the date of the Annual Report, the Board of Directors consists of five members, including one company representative. The proceedings and responsibilities of the Board of Directors are governed by a set of rules of procedure. It is the Group's intention that the members of the Board of Directors will be selected in the light of an evaluation of the Group's needs for expertise, capacity and balanced decision making, with the aim of ensuring that the Board of Directors can operate independently of any special interests and that the Board of Directors can function effectively as a collegial body.

The directors are encouraged to hold shares in the Group, which the Board of Directors believes promotes a common financial interest between the members of the Board of Directors and the shareholders of the Group. Pursuant to the Code, the majority of the shareholder-elected members of the Board of Directors shall be independent of the Group's management and its main business connections. At least two of the shareholder-elected members of the Board of Directors shall be independent of the Group's main shareholders. Both Mari Thjømøe and Bettina Bachmann are considered to be independent of the Group's main shareholders. However, the majority of shareholder-elected directors are not independent of the Group's management and main business connections.

Currently, one executive consultant is a Director. The current members of the Board of Directors represent 47 % of the shareholders. The executive consultant is the third largest shareholder with ownership of approx. 13 %. The Board of Directors continuously evaluates conflict of interest and the members' independence in each resolution.

The term of office for members of the Board of Directors are two years unless the General Meeting decides otherwise, but a director may be re-elected.

The work of the Board of Directors

The Board of Directors meet a number of times within a year, including for strategy meetings, financial reporting and additional meetings under special circumstances if necessary. During 2015, the Board of Directors held 11 meetings. The Board of Directors working methods are openly discussed. Between meetings, the Chairman and Chief Executive Officer update the members of the Board of Directors on current matters. Each Board of Directors meeting includes a briefing by CEO followed by questions and answers session (Q&A). The Board of Directors meetings are a continuous centre of attention to ensure; executive personnel maintain systems, procedures and a corporate culture that promote high ethical conduct and compliance with legal and regulatory requirements.

Remuneration of the Board of Directors

The remuneration to the members of the Board of Directors is resolved in the Annual General Meeting.

Remuneration of the executive personnel

The Group's policy for management remuneration is that leading employees shall receive competitive salary in order to maintain continuity in the executive management. The Group shall offer a level of salary, which reflects the level of salary in equivalent companies in Norway and abroad. All executive personnel are included in the Group's share option program.

Audit committee

In 2015, the Group established an Audit Committee.
The audit committee shall consist of board members who fulfil the requirements of section 6-42 of the Public Companies Act. Moreover, the majority of the members should be independent of the Company.
The audit committee shall;

- Review interim and annual financial reports and processes
- Monitor the systems for internal control and risk management,
- Maintain ongoing contact with the Company's elected auditor regarding the audit of the annual financial statement, and
- Assess and monitor the auditor's independence,

hereunder particularly to which extent other services than auditing, provided by the auditor or the auditing Company, constitute a threat against the auditor's independence.

The auditor should, at least once a year, review together with the audit committee, the Company's internal control, hereunder identify weaknesses and provide suggestions for improvements.

Risk management and internal control

The Board, in conjunction with the executive management, evaluates the risks inherent in the operations of the Group.

Principal among these risks are those relating to current operations as well as construction of the Group's proprietary system, obtaining contractual counter-parties, retaining key staff and general financial risk. In addition, the following risks inherent in the business plan are monitored: commodity prices, exchange rates, competition, the political and regulatory environment, counter-party performance, and the potential growth of the business and the application of new technology.

The Board of Directors, working with the finance department and through the annual audit process, ensures that the Group has reliable internal control and systems for risk management. The Board of Directors is presented and approves an annual budget/forecast at the end of the preceding financial year or in the beginning of the commencing financial year. Thereafter, the Board is presented with regular updates and reports identifying material variations from the approved budget/forecast. Explanations are obtained for material variances. The Board of Directors is also presented with (and approves) interim financial statements on a quarterly basis, which are reviewed with the executive management.

Information and communications

Communication with shareholders, investors and analysts is a high priority for Magseis. The Group believes that objective and timely information to the market is a prerequisite for a fair valuation of the Group, and in turn, the generation of shareholder value. The Group continually seeks ways to enhance its communication with the investment community.

Take-overs

The Board of Directors endorses the recommendation of the Code. The Articles of Association of Magseis do not contain any restrictions, limitations or defence mechanisms on acquiring the Group's shares. In accordance with the Securities Trading Act and the Code, the Board has adopted guidelines for possible takeovers. In the event of an offer, the Board of Directors will not seek to hinder or obstruct takeover bids for Magseis' activities or shares. Any agreement with the bidder that acts to limit the Group's ability to arrange other bids for the Group's shares will only be entered into where the Board of Directors believes it is in the common interest of the Group and its shareholders.

Information about agreements entered into between the Group and the bidder that are material to the market's evaluation of the bid will be publicly disclosed no later than at the same time as the announcement that the bid will be made is published. If an offer is made for the shares of Magseis, the Board of Directors will make a recommendation on whether the shareholders should or should not accept the offer, and will normally arrange for a valuation from an independent expert.

Auditor

KPMG AS has been appointed the auditors for the Company since 2012 and the Board will from time to time evaluate the audit arrangement for the Company.

The auditor is to participate in meetings of the audit Committee and the Board of Directors that deal with the annual accounts. The auditor will present to the Board of Directors a report outlining the audit activities in the previous fiscal year and highlighting the areas that caused the most attention or discussions with management, and a plan for the work related to the Group's audit. The Board meet with the company´s auditor without management present at least one time every year. The General Meeting is informed about the Group's engagement and remuneration of the auditor and the fees paid to the auditor for services other than the annual audit, and details are given in notes to the Annual Report. The remuneration paid to the auditor will be approved by the General Meeting.