

CORPORATE GOVERNANCE REPORT

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 develop 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 Board'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 <https://lovdata.no/dokument/NL/lov/1998-07-17-56>. Magseis considers the development of high Corporate Governance standards of 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 of Directors, and management, in the context of both short- and long-term value creation perspectives. The Board of Directors wants 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 manner. The Board of Directors and the nomination committee also have procedures in place to ensure that the Board of Directors 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 the customers' first choice within field development and the exploration industry. In fulfilling this purpose, Magseis will create long-term value for its customers and shareholders.

Equity and dividends

The Group's equity as per 31 December 2016 amounts to USD 49.0 million, 56.6% 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. To this effect, the Board of Directors has proposed that the shareholders in an extraordinary general meeting to be held on 27 March 2017, approve the terms for a private placement and subsequent repair offering. Board authorisations for share capital increases and buy-back of own shares are generally limited to defined purposes and are granted only with effect until the next annual general meeting.

The Group is currently in a growth phase and has not yet distributed any dividends. As per 31 December 2016, the Company has no distributable equity and the Board of Directors will not propose a dividend for 2016 to the Annual General Meeting. Magseis will over time develop and disclose a dividend policy including an appropriate payout to its shareholders.

Equal treatment of shareholders and transactions with close associates

Magseis has only 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. The shareholders of the Company have preferential rights to subscribe for new shares. If and to the extent that the preferential right is set aside, either by the general meeting or by the Board of Directors on the basis of an authorisation granted by the general meeting, the reason for this will be disclosed by the Company. Any trades in the Company's own shares will be conducted over the trading platform of Oslo Axess or at stock exchange prevailing prices. In respect of any related party agreements which are not immaterial, the Board of Directors will consider to obtain an independent valuation, unless the agreement shall be approved by the general meeting in accordance with law. Magseis has implemented guidelines to ensure that board members and members of the executive management notifies the Board if they directly or indirectly holds a significant interests in respect of an agreement being made by the Company.

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, save to the extent restricted by foreign securities legislation imposed in connection with 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 requirements set out in statutory Norwegian law and the recommendations of 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 proposed resolutions and supporting information distributed in the calling notice for the meeting 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 an attendance- and 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 appendices 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, the CFO, the nomination committee and the auditor 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 as soon as possible 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, and any deviation from the proposal by the Board of Directors will be set out in such announcement.

Nomination committee

Magseis' nomination committee consists of three members; Roar Bekker (chairperson), Anders Farestveit and Jon Hille Valle. All of them satisfy the requirement to be 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 maximum one member of the Nomination Committee shall be member of the Board of Directors, and shall not run for re-election. 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

Magseis is by law not required to, and has accordingly not established a corporate assembly.

The Board of Directors has the 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 four members, including one representative of the employees. Currently, the Board of Directors does not satisfy the gender requirements of the Norwegian Public Liability Companies Act. It is however the intention that this will be remedied in connection with the annual general meeting for 2017. The proceedings and responsibilities of the Board of Directors are governed by a set procedural rules. 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. Jan P. Grimnes, Jan M. Drange and Bettina R. 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 own directly or indirectly 17 % of the outstanding shares. One of the directors, which is

one of the cofounders and is hired as an executive consultant, is the third largest shareholder with ownership of approx. 10 % of the outstanding shares. 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 is two years unless the General Meeting decides otherwise, but all directors are eligible for re-election.

The work of the Board of Directors

The Board of Directors meet a number of times during the year, including for strategy meetings, financial reporting and additional meetings under special circumstances if necessary. During 2016, the Board of Directors held 19 meetings. The working methods for the Board of Directors are subject to open discussion. Between meetings, the Chairman and Chief Executive Officer update the members of the Board of Directors on current matters. Each meeting of the Board of Directors includes a briefing by CEO followed by questions and answers session (Q&A). The meetings of the Board of Directors are on a continuous basis focused on ensuring satisfactory procedures and corporate culture promoting high ethical conduct and compliance with legal and regulatory requirements amongst all employees of the Group. The Board of Directors has adopted an annual plan which focuses on the strategic goals of the Group. The Board of Directors has furthermore established guidelines for the executive management with a clear division of responsibilities. In cases where the chairman of the Board is or has been actively involved, another member of the Board of Directors will be tasked to lead the discussions.

The Company has established a remuneration committee which comprises Jan P. Grimnes, Bettina Bachman and Jan M. Drange. The remuneration committee assists the Board of Directors with matters relating to the compensation and benefits of the CEO and other Executive Management.

Risk management and internal control

The Board of Directors, in conjunction with the executive management, evaluates the risks inherent in the operations of the Group on a continuous basis.

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 together with the executive management.

Remuneration of the Board of Directors

In accordance with Norwegian law and the recommendations of the Code, the remuneration to the members of the Board of Directors is resolved in the Annual General Meeting. The remuneration of the Board of Directors is designed to reflect the responsibility and competence of the Board of Directors as well as the time spent and complexity of the business of the Group. The remuneration of the Board of Directors is not contingent upon the results of operations. [No options are afforded to the members of the Board of Directors]. In accordance with the Code, members of the Board of Directors should not assume other tasks for the Company than the directorship. Jan B. Gateman, who is a member of the Board of Directors, is also SVP R&D for Magseis, and the Company is accordingly not compliant with the Code.

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's policy for remuneration of executive personnel is presented to and approved by the annual general meeting. 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 which is linked to long-term results and achievements for the Group.

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.

Audit committee

The Company has established an audit committee which comprises Jan P. Grimnes and Jan M. Drange.

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.
- Assess and monitor the auditor's independence, here under 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.

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 take-overs. 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 share-

holders 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 auditor for the Company since 2012 and the Board will from time to time evaluate the audit arrangement for the Company.

The auditor participates 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 meets 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.



Dicks Vei 10B, N-1366 Lysaker NORWAY, Phone: +47 23 36 80 20