CORE LABORATORIES N.V.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IAS 34, "INTERIM FINANCIAL REPORTING"

Semi-Annual Report for June 30, 2019

Strawinskylaan 913
Tower A, Level 9
1077 XX Amsterdam
The Netherlands

CORE LABORATORIES N.V.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEMI-ANNUAL REPORT FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2019

TABLE OF CONTENTS

Semi-Annual Report of the Directors

Currency - United States Dollars (“$”)

Business review

Core Laboratories N.V. is a limited liability company incorporated in the Netherlands. It was established in 1936 and is one of the world's leading providers of proprietary and patented reservoir description and production enhancement services and products to the oil and gas industry. These services and products can enable our clients to improve reservoir performance and increase oil and gas recovery from their producing fields. Core Laboratories N.V. has over 70 offices in more than 50 countries and employs approximately 4,500 people worldwide.

References to "Core Lab", "we", "our", the "Company" and similar phrases are used throughout this Semi-Annual Report and relate collectively to Core Laboratories N.V. and its consolidated affiliates.

We operate our business in two reportable segments: Reservoir Description and Production Enhancement. These complementary segments provide different services and products and utilize different technologies for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

- *Reservoir Description:* Encompasses the characterization of petroleum reservoir rock, fluid and gas samples to increase production and improve recovery of oil and gas from our clients' reservoirs. We provide laboratory based analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry. We also provide proprietary and joint industry studies based on these types of analysis.
- *Production Enhancement:* Includes services and products relating to reservoir well completions, perforations, stimulations and production. We provide integrated diagnostic services to evaluate and monitor the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.

Financial Review

Revenue

<u>*Services Revenue*</u>

Services revenue, which is tied more to activities associated with the exploration and production of oil and gas outside the U.S., decreased 2% to $238.2 million for the six months ended June 30, 2019 from $241.9 million for the six months ended June 30, 2018. Crude oil prices strengthened throughout 2018 until the fourth quarter, when they temporarily dropped some 40%. Although the crude oil prices partially rebounded and stabilized during the first half of 2019, our service revenue in the North America on-shore market decreased during the first half of 2019 compared to 2018. However, Core Lab is beginning to see improvement in the level of work performed for offshore and international exploration and production projects, which provides a more positive outlook and support for larger and longer-term projects. Although our clients announced final investment decisions in 2017 and 2018 for several projects outside the U.S. and in offshore environments, significant activity on these projects will not start until later in 2019 and wells must be drilled and/or completed, stimulated, cored and have reservoir fluid samples collected, before we see a revenue opportunity.

International activity remained effectively flat through 2018 as most international development projects continued to be funded largely from operating budgets, however capital spending directed towards international projects has expanded during 2019. We continue to focus on large-scale core analyses and reservoir fluids characterization studies in the Eagle Ford, the Permian Basin and the Gulf of Mexico, along with Guyana, Malaysia and other international locations such as offshore South America, Australia, and the Middle East, including Kuwait and the United Arab Emirates.

Product Sales Revenue

Revenue associated with product sales decreased 3% to $100.0 million for the six months ended June 30, 2019 from $103.6 million for the six months ended June 30, 2018. Our product sales revenue is primarily driven by completions of wells in the North American market and, more specifically, the activity associated with the completion of each stage in a wellbore. The sharp decrease of crude oil prices during the fourth quarter of 2018 combined with the supply chain logistics and take-away restrictions associated with the Permian Basin resulted in decreased activity for the U.S. onshore market at the end of the fourth quarter. This resulting decrease in the U.S. onshore activity has continued into the first half of 2019. We continue to benefit from our clients' acceptance of new products which were led by our newly introduced technologies, including our HERO® PerFRAC perforating system.

Operating expenses

Cost of Services

Cost of services expressed as a percentage of services revenue was 74% and 73% for the six months ended June 30, 2019 and June 30, 2018, respectively. The increase in cost of services during the six months ended June 30, 2019 was primarily due to compensation and related charges.

Cost of Product Sales

Cost of product sales expressed as a percentage of product sales revenue was 75% for the six months ended June 30, 2019, compared to 74% for the same period in 2018. The increase in cost of product sales during the six months ended June 30, 2019 was primarily due to our fixed-cost structure being absorbed on lower revenue in 2019 when compared to 2018.

Operating margin

Operating margin for the six month period ended June 30, 2019 decreased to 14%, compared to 20% for the same period of 2018, primarily due to acceleration of stock compensation expense recorded in the first half of 2019 for retirement eligible employees.

Cash Flow

The following table summarizes cash flows (in thousands):

	Six Months Ended June 30,			
	2019	**2018**	**Variance**	**% Change**
Cash provided by (used in):				
Operating activities	$ 51,633	$ 50,075	$ 1,558	3%
Investing activities	7,087	(13,306)	20,393	NM
Financing activities	(59,290)	(38,148)	(21,142)	(55)%
Net change in cash and cash equivalents	$ (570)	$ (1,379)	$ 809	NM

Cash flows provided by operating activities for the first six months of 2019 compared to the same period in 2018 decreased primarily due to decreased profit from continuing operations before tax offset by changes in working capital.

The change in cash flows used in investing activities during the first six months of 2019 compared to the same period in 2018 was primarily attributable to the proceeds from the sale of two businesses in 2019.

Cash flows used in financing activities for the six months ended June 30, 2019 increased compared to the same period in 2018. We used $9.4 million to pay lease liabilities in 2019. Debt did not change during the six months ended June 30, 2019, as compared to debt increasing by $16 million during the same period in 2018. In the six months ended June 30, 2019, we repurchased 16,056 shares of our common stock for an aggregate purchase price of $1.1 million compared to the repurchase of 36,258 shares for an aggregate purchase price of $4.0 million during the same period in 2018. During the six months ended June 30, 2019, we used $48.8 million to pay dividends, which is consistent with the amount paid for the same period in 2018.

Equity

During the six months ended June 30, 2019, we repurchased 16,056 of our common shares for $1.1 million, which were surrendered to us pursuant to the terms of a stock-based compensation plan in consideration of the participants' tax burdens that may result from the issuance of common shares under that plan. Such common shares, unless canceled, may be reissued for a variety of purposes such as future acquisitions, non-employee director stock awards or employee stock awards. We distributed 54,008 treasury shares upon vesting of stock-based awards during the six months ended June 30, 2019.

In February, May and August, 2019, we paid a quarterly dividend of $0.55 per share of common stock.

Segment Analysis

We operate our business in two reportable segments: Reservoir Description and Production Enhancement. These complementary segments provide different services and products and utilize different technologies for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

Results for these business segments are presented below and are consistent with the information which is reviewed by the Chief Operating Decision Maker ("CODM"). We use U.S. GAAP accounting policies to prepare our business segment results and adjustments are provided to reconcile segment results to our Consolidated financial statements which are prepared using IFRS accounting policies. We evaluate performance based on income or loss from continuing operations before income tax, interest and other non-operating income (expense).

The following table summarizes our results by segment (in thousands):

	Six Months Ended June 30,			
	2019	**2018**	**Variance**	**% Change**
Revenue:				
Reservoir Description	$ 208,941	$ 202,916	$ 6,025	3%
Production Enhancement	129,291	142,577	(13,286)	(9)%
Total revenue	$ 338,232	$ 345,493	$ (7,261)	(2)%
Operating income:				
Reservoir Description	$ 22,057	$ 29,517	$ (7,460)	(25)%
Production Enhancement	20,336	36,114	(15,778)	(44)%
Corporate and Other (1)	2,029	134	1,895	NM
Adjustments from US GAAP to IFRS	2,965	1,852	1,113	60%
Operating income:	$ 47,387	$ 67,617	$ (20,230)	(30)%

(1) "Corporate and Other" represents those items that are not directly related to a particular segment

Reservoir Description

Revenue from the Reservoir Description segment increased 3% to $208.9 million for the six months ended June 30, 2019, compared to $202.9 million for the six months ended June 30, 2018. This segment's operations continue to work on large-scale, long-term, crude oil and liquefied natural gas ("LNG") projects with an emphasis on producing fields located in offshore developments and international markets. We continue to focus on large-scale core analyses and reservoir fluids characterization studies in the Asia-Pacific areas, offshore Europe and Africa, offshore South America, North America, and the Middle East.

Operating income of $22.1 million for the six months ended June 30, 2019 decreased to $29.5 million for the six months ended June 30, 2018. The six month period ending June 30, 2019 included an additional expense of $7.9 million recorded for stock compensation related to retirement eligible employees and severance and other related charges of $1.7 million.

Production Enhancement

Revenue from the Production Enhancement segment was $129.3 million for the six months ended June 30, 2019, a decrease of 9% from $142.6 million for the six months ended June 30, 2018. The significant decrease in the crude oil commodity price in the fourth quarter of 2018, resulted in a decrease of drilling and well completion activities in the U.S. onshore market at the end of the fourth quarter 2018. The lower level of drilling and well completion activity continued into the first half of 2019. However, our clients continue to seek technological solutions for increasing daily production and estimated ultimate recoveries from their reservoirs and we continue to benefit from our clients' acceptance of new services and products which were led by the FLOW**PROFILER** EDS™ and HERO® PerFRAC technologies.

Operating income for the six months ended June 30, 2019 was $20.3 million, a decrease of $15.8 million from $36.1 million for the six months ended June 30, 2018. The decrease in operating income is associated with lower revenue in 2019, and 2019 includes accelerated stock compensation expense of $2.5 million for retirement eligible employees and severance and other related charges of $1.3 million.

Outlook

We are encouraged by the increased focus of our major clients regarding capital management, return on invested capital, free cash flow, and returning capital back to their shareholders, as opposed to a focus on production growth at any cost. The companies adopting value versus volume metrics tend to be the more technologically sophisticated operators and form the foundation of Core's worldwide client base. We expect to benefit from our clients' shift in focus from strictly production growth to employing higher technological solutions in their efforts to maximize economic production growth and estimated ultimate recovery ("EUR").

Crude oil prices rebounded, strengthened and stabilized in the first half of 2019 in comparison to the end of 2018. The price of crude oil at the end of the first half of 2019 improved approximately 30% from the end of 2018. During the first half of 2019, the balancing of the worldwide crude-oil markets has stabilized due to the continuation of the OPEC production cuts and crude-oil inventories modestly declining. These crude-oil market fundamentals drive the international activity levels of our clients, which are expected to continue to improve in the second half of 2019.

The U.S. completion growth rate appears to be moderating with the current level of crude oil prices and our clients continue to exercise discipline in managing their operations within their free cash flow and 2019 operating budgets. Combined, these issues could impact the rate of revenue growth opportunity for any company that is reliant on completions as a catalyst for growth.

Balancing of crude-oil supply and demand drives the crude-oil price which underpins the Final Investment Decisions ("FIDs") and emerging international crude-oil field reinvestment. After five years of muted investment in international, offshore and deepwater projects, oil companies announced more than 30 FIDs in 2018, an increase of more than 20% from 2017. The renewed investment at a global level is critical in order to meet future supply needs. Recognition of the need for investment is evidenced by the FIDs announced over the last two years and Wood McKenzie's estimation of another 30 upstream projects for 2019. These international, offshore and deepwater projects continue to progress in their initial phases of planning, mobilizing equipment and initial drilling of wells. However, Core Lab anticipates a slowing in further project announcements until confidence in the balance of global crude-oil markets is restored. The revenue opportunity for Reservoir Description occurs once the well has been drilled and core and fluid samples are taken and analyzed.

We continue to focus on large-scale core analyses and reservoir fluid characterization studies in the Asia-Pacific areas, offshore Europe and Africa, offshore South America, North America and the Middle East. We also focus on complex completions in unconventional tight-oil reservoirs, technological solutions and services for increasing daily productions and EURs.

Cautionary Statement Regarding Forward-Looking Statements

This Semi-Annual Report contains forward-looking statements. In addition, from time to time, we may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "believe", "expect", "anticipate", "estimate", "continue", or other similar words, including statements as to the intent, belief, or current expectations of our directors, officers, and management with respect to our future operations, performance, or positions or which contain other forward-looking information. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, no assurances can be given that the future results indicated, whether expressed or implied, will be achieved. While we believe that these statements are and will be accurate, our actual results and experience may differ materially from the anticipated results or other expectations expressed in our statements due to a variety of risks and uncertainties.

Statement of Directors' Responsibilities

In accordance with the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht), section 5:25d, paragraph 2 sub c, we confirm that, to the best of our knowledge:

- the condensed consolidated interim financial statements for the six months ended June 30, 2019 have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union and give a true and fair view of the assets, the liabilities, the financial position and the profits or the loss of Core Laboratories N.V. and its consolidated companies; and

- the interim management report for the six months ended June 30, 2019 gives a true and fair view of the information required pursuant to section 5:25d, subsection 8 and, as far as applicable, subsection 9 of the Dutch Act on Financial Supervision.

Amsterdam, The Netherlands,
August 28, 2019

/s/ Jacobus Schouten

Jacobus Schouten, on behalf of
Core Laboratories International B.V.,
Sole managing director of Core Laboratories N.V.

/s/ Christopher S. Hill

Christopher S. Hill
Senior Vice President and Chief Financial Officer

CORE LABORATORIES N.V.
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(In thousands of USD, except share data)

	Ref.	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment, net		$ 125,699	$ 122,917
Right-of-use lease assets	**19**	75,150	—
Intangible assets, net	**5**	277,700	278,723
Investment in associates		3,857	3,760
Deferred tax assets, net		70,430	16,241
Derivative financial assets	**9**	—	135
Other financial assets	**8**	48,156	41,527
Other assets		4,542	5,878
TOTAL NON-CURRENT ASSETS		$ 605,534	$ 469,181
CURRENT ASSETS			
Inventories	**10**	$ 49,311	$ 45,664
Prepaid expenses and other current assets		42,940	51,816
Income taxes receivable		8,327	13,993
Accounts receivable		134,900	129,157
Cash and cash equivalents		12,546	13,116
TOTAL CURRENT ASSETS		$ 248,024	$ 253,746
TOTAL ASSETS		$ 853,558	$ 722,927
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		$ 259,921	$ 225,854
NON-CONTROLLING INTEREST		4,231	4,141
TOTAL EQUITY		$ 264,152	$ 229,995
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	**12**	$ 290,022	$ 289,770
Long-term lease liabilities	**19**	62,737	—
Income taxes payable		14,262	14,262
Deferred tax liabilities, net		31,446	11,468
Post-employment benefit plans	**15**	66,149	72,783
Derivative financial instruments	**9**	1,082	70
Provisions	**13**	3,614	6,607
TOTAL NON-CURRENT LIABILITIES		$ 469,312	$ 394,960
CURRENT LIABILITIES			
Accounts payable		$ 41,935	$ 41,155
Lease liabilities	**19**	12,968	—
Income taxes payable		1,809	3,199
Other taxes payable		5,427	5,754
Payroll and social security contributions		32,146	22,725
Unearned revenue	**14**	14,370	17,625
Other accrued expenses		11,439	7,514
TOTAL CURRENT LIABILITIES		$ 120,094	$ 97,972
TOTAL LIABILITIES		$ 589,406	$ 492,932
TOTAL EQUITY AND LIABILITIES		$ 853,558	$ 722,927

The accompanying notes are an integral part of these Consolidated Interim Financial Statements.

CORE LABORATORIES N.V.
INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(In thousands of USD, except share and per share data)

	Ref.	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
		(Unaudited)	
REVENUES:			
Services		$ 238,212	$ 241,880
Product sales		100,020	103,613
TOTAL REVENUES		338,232	345,493
OPERATING EXPENSES:			
Cost of services		175,828	177,315
Cost of product sales		75,228	76,166
TOTAL OPERATING EXPENSES		251,056	253,481
GROSS PROFIT		**87,176**	**92,012**
Depreciation of right-of-use lease assets		8,367	—
General and administrative expense		31,127	24,384
Other expense, net		295	11
OPERATING PROFIT		**47,387**	**67,617**
Finance income		(33)	(8)
Finance costs for lease liabilities		1,834	—
Finance costs for debt		7,440	6,416
Finance costs, net		9,241	6,408
Share of profit of associates		97	69
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX		**38,243**	**61,278**
Income tax expense (benefit)	**16**	(22,180)	12,936
PROFIT FROM CONTINUING OPERATIONS		$ 60,423	$ 48,342
PROFIT (LOSS) FROM DISCONTINUED OPERATIONS, net of income taxes		8,230	(674)
PROFIT FOR THE PERIOD		$ 68,653	$ 47,668
Attributable to:			
Equity holders of the parent		$ 68,563	$ 47,565
Non-controlling interest		90	103
		$ 68,653	$ 47,668
EARNINGS PER SHARE INFORMATION:			
Basic earnings per share	**17**	$ 1.55	$ 1.08
Diluted earnings per share	**17**	$ 1.53	$ 1.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (in thousands):			
Basic	**17**	44,339	44,191
Diluted	**17**	44,848	44,515

The accompanying notes are an integral part of these Consolidated Interim Financial Statements.

CORE LABORATORIES N.V.
INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
(In thousands of USD)

		Six Months Ended June 30,	
	Ref.	**2019**	**2018**
		(Unaudited)	
Profit for the period		$ 68,653	$ 47,668
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	**15**	1,891	(610)
Income taxes on post-employment benefit obligations	**15**	(334)	143
Items that may be subsequently reclassified to profit or loss			
Cash flow hedges	**9**	(1,123)	971
Income taxes on cash flow hedges	**9**	236	(205)
Net income (loss) recognized directly in equity		670	299
Total comprehensive income for the period		$ 69,323	$ 47,967
Attributable to:			
Equity holders of the parent		$ 69,233	$ 47,864
Non-controlling interest		90	103
		$ 69,323	$ 47,967

The accompanying notes are an integral part of these Consolidated Interim Financial Statements.

CORE LABORATORIES N.V.
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In thousands of USD, except share data)

(Unaudited)	Ref.	Number of Shares Outstanding	Common Shares	Additional Paid-In Capital	Retained Earnings	Other Reserves	Treasury Stock	Non-controlling Interest	Total Equity
BALANCE, January 1, 2019		44,316,845	$ 1,148	$ 55,156	$ 235,703	$ (13,651)	$ (52,502)	$ 4,141	$ 229,995
Comprehensive income:									
Profit (loss) for the period		—	—	—	68,563	—	—	90	68,653
Other comprehensive income:									
Pension remeasurement	15					1,557			1,557
Cash flow hedges	9					(887)			(887)
Total other comprehensive income (loss)									670
Total comprehensive income									69,323
Transactions with owners:									
Stock-based compensation	11	—	—	(7,715)	—	—	7,715	—	—
Stock-based awards issued	11	54,008	—	14,694	—	—	—	—	14,694
Repurchases of common shares	11	(16,056)	—	—	—	—	(1,091)	—	(1,091)
Dividends paid	11	—	—	—	(48,769)	—	—	—	(48,769)
BALANCE, June 30, 2019		**44,354,797**	**$ 1,148**	**$ 62,135**	**$ 255,497**	**$ (12,981)**	**$ (45,878)**	**$ 4,231**	**$ 264,152**

(Unaudited)	Ref.	Number of Shares Outstanding	Common Shares	Additional Paid-In Capital	Retained Earnings	Other Reserves	Treasury Stock	Non-controlling Interest	Total Equity
BALANCE, January 1, 2018		44,184,205	$ 1,148	$ 53,454	$ 254,361	$ (13,026)	$ (76,269)	$ 3,888	$ 223,556
Comprehensive income:									
Profit (loss) for the period		—	—	—	47,565	—	—	103	47,668
Other comprehensive income:									
Pension remeasurement	15					(467)			(467)
Cash flow hedges	9					766			766
Total other comprehensive income (loss)									299
Total comprehensive income									47,967
Transactions with owners:									
Stock-based compensation	11	—	—	(7,928)	—	—	7,928	—	—
Stock-based awards issued	11	55,589	—	11,798	—	—	—	—	11,798
Repurchases of common shares	11	(36,258)	—	—	—	—	(3,960)	—	(3,960)
Dividends paid	11	—	—	—	(48,635)	—	—	—	(48,635)
BALANCE, June 30, 2018		**44,203,536**	**$ 1,148**	**$ 57,324**	**$ 253,291**	**$ (12,727)**	**$ (72,301)**	**$ 3,991**	**$ 230,726**

The accompanying notes are an integral part of these Consolidated Interim Financial Statements.

CORE LABORATORIES N.V.
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of USD)

	Ref.	Six Months Ended June 30, 2019	2018
		(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit from continuing operations before income tax expense		$ 38,243	$ 61,278
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization, including intangibles and leases		19,740	11,686
Equity in earnings of associates		(97)	(69)
Stock-based compensation	11	14,694	11,798
Finance costs, including debt and leases		9,241	6,408
(Gain) loss on sale of assets		(307)	(71)
(Gain) loss on sale of subsidiary		(1,154)	—
(Gain) loss on sale of discontinued operations		(8,804)	—
Discontinued operations		574	674
Fair value (gains)/losses on other financial assets	8	(2,219)	688
Changes in assets and liabilities:			
Accounts receivable		(5,758)	(3,052)
Inventories	10	(2,956)	(6,537)
Other assets		1,524	(11,066)
Accounts payable		887	3,645
Accrued expenses		10,443	2,914
Other long-term liabilities		(8,363)	(7,260)
Cash provided by operating activities		65,688	71,036
Interest paid		(6,786)	(5,572)
Income tax paid		(7,269)	(15,389)
Net cash provided by operating activities		$ 51,633	$ 50,075
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures		$ (12,230)	$ (11,915)
Patents and other intangibles		105	(878)
Proceeds from sale of assets		440	199
Proceeds from sale of subsidiary		2,980	—
Proceeds from sale of discontinued operations		16,642	—
Interest received		33	8
Premiums on life insurance		(883)	(720)
Net cash used in investing activities		$ 7,087	$ (13,306)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of debt borrowings	12	$ (68,000)	$ (57,000)
Proceeds from debt borrowings	12	68,000	73,000
Payments for lease liabilities		(9,430)	—
Repurchase of common shares	11	(1,091)	(3,960)
Dividends paid	11	(48,769)	(48,635)
Debt financing costs	12	—	(1,553)
Net cash used in financing activities		$ (59,290)	$ (38,148)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(570)	(1,379)
CASH AND CASH EQUIVALENTS, beginning of period		13,116	14,400
CASH AND CASH EQUIVALENTS, end of period		$ 12,546	$ 13,021

The accompanying notes are an integral part of these Consolidated Interim Financial Statements.

CORE LABORATORIES N.V.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH IAS 34
JUNE 30, 2019

1. DESCRIPTION OF BUSINESS

Core Laboratories N.V. ("Core Laboratories", the "Company", "we", "our" or "us") is a limited liability company incorporated and domiciled in the Netherlands. The address of the registered office is Strawinskylaan 913, Tower A, Level 9, 1077 XX Amsterdam, The Netherlands. We were established in 1936 and are one of the world's leading providers of proprietary and patented reservoir description and production enhancement services and products to the oil and gas industry. These services and products are directed toward enabling our clients to improve reservoir performance and increase oil and gas recovery from their producing fields. We have over 70 offices in more than 50 countries and had approximately 4,500 and 4,600 employees at June 30, 2019 and 2018, respectively. We are listed on the New York Stock Exchange ("NYSE") and on the Euronext Amsterdam Stock Exchange.

We operate our business in two reportable segments: Reservoir Description and Production Enhancement. These complementary segments provide different services and products and utilize different technologies for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

- *Reservoir Description:* Encompasses the characterization of petroleum reservoir rock, fluid and gas samples to increase production and improve recovery of oil and gas from our clients' reservoirs. We provide laboratory based analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry. We also provide proprietary and joint industry studies based on these types of analysis.

- *Production Enhancement:* Includes services and products relating to reservoir well completions, perforations, stimulations and production. We provide integrated diagnostic services to evaluate and monitor the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these condensed consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated and are consistent with those of the previous financial year.

Basis of Preparation

Our condensed consolidated interim financial statements for the six months ended June 30, 2019 have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34"). The condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss. The condensed interim consolidated financial statements have not been audited and should be read in conjunction with the annual financial statements for the year ended December 31, 2018, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and with Part 9 Book 2 of the Dutch Civil Code.

The accounting policies adopted are consistent with those of the previous financial year except as described below.

Estimates

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The significant judgments made by management in applying our accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2018, with the exception of changes in estimates that are required in determining the provision for income taxes.

Current and Deferred Income Taxes

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. See Note 16 - *Income Taxes*.

New and Amended Standards

Pronouncements Adopted in 2019

IFRS 16, Leases (effective for annual periods beginning on or after January 1, 2019) introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The most significant impact identified is that we will recognize new assets and liabilities for our leases, primarily consisting of office and lab space, machinery and equipment and vehicles. In addition, the nature of expenses related to these leases will now change as IFRS 16 replaces the straight-line operating lease expense with an amortization charge for right-of-use assets and interest expense on lease liabilities. The Standard allows for either full retrospective adoption or cumulative-effect adjustment adoption method. We adopted the Standard on January 1, 2019. We have elected the cumulative-effect adjustment method and therefore did not restate the comparative information of prior years presented in our Consolidated Financial Statements.

We elected the following practical expedients and applied these consistently to the identified classes of leases:

- We did not reassess whether any expired or existing contracts are or contain leases.
- For vehicle leases, we elected to account for each separate lease component and non-lease component as a single lease component.
- We elected not to apply IFRS 16 for transactions of a low value, which is less than $100 per month.

Upon the adoption of this Standard, as of January 1, 2019, we recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using our incremental borrowing rate ("IBR") of 3.8%. We have recognized ROU assets and lease liabilities of $77.5 million as of January 1, 2019.

See Note 19 - *Leases*.

3. FINANCIAL RISKS AND RISK MANAGEMENT

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with our annual financial statements as of December 31, 2018.

4. SEASONALITY OF OPERATIONS

Our operations are only slightly impacted by seasonality effects from period to period.

5. ACQUISITIONS

We had no significant acquisitions during the six months ended June 30, 2019.

6. DISCONTINUED OPERATIONS

In 2018, in a continuing effort to streamline our business and align our business strategy for further integration of services and products, the Company committed to divest the business of our full range of permanent downhole monitoring systems and related services, which had been part of our Production Enhancement segment.

On June 7, 2019, we entered into a definitive purchase agreement for the divestiture of our full range of permanent downhole monitoring systems and related services, which was previously part of our Production Enhancement segment for approximately $16.6 million in cash, subject to adjustments for working capital purposes. The purchase agreement also provides for additional proceeds of up to $2.5 million based on the results of operations of the sold business in 2019 and 2020, none of which has been recognized. A pre-tax gain of $8.8 million was recognized in connection with this transaction, subject to selling costs which may be recognized next quarter, and is classified in Income from discontinued operations in the Consolidated Statements of Operations.

The associated results of operations are separately reported as Discontinued Operations for all periods presented on the Consolidated Statements of Operations. Balance sheet items for this discontinued business, including an allocation of goodwill form the Production Enhancement segment, have been reclassified to Other current assets and Other current liabilities in the Consolidated Statement of Financial Position as of December 31, 2018. Cash flows from this discontinued business are shown below. As such, the results from continuing operations for the Company and segment highlights for Production Enhancement, exclude these discontinued operations.

Selected data for this discontinued business consisted of the following (in thousands):

	Six Months Ended June 30,	
	2019	**2018**
Service revenue	$ 1,165	$ 902
Product sales revenue	4,233	1,710
Total revenue	5,398	2,612
Cost of services, exclusive of depreciation expense shown below	690	874
Cost of product sales, exclusive of depreciation expense shown below	3,196	2,180
Depreciation and amortization	—	102
Other expense (income)	91	22
Operating income (loss)	1,421	(566)
Gain on sale	8,804	—
Income (loss) from discontinued operations before income taxes	10,225	(566)
Income tax expense	1,995	108
Income (loss) from discontinued operations, net of income taxes	$ 8,230	$ (674)

	June 30, 2019	**December 31, 2018**
Current assets	$ —	$ 3,712
Non-current assets	—	1,848
Total assets	$ —	$ 5,560
Current liabilities	$ —	$ 1,633
Non-current liabilities	—	82
Total liabilities	$ —	$ 1,715

Net cash provided by (used in) operating activities of discontinued operations for the six months ended June 30, 2019 and 2018 was $(1.8) million and $0.1 million, respectively.

Net cash provided by investing activities of discontinued operations for the six months ended June 30, 2019 and 2018 was $16.6 million and $0.0 million, respectively.

7. SEGMENT REPORTING

We operate our business in two reportable segments: Reservoir Description and Production Enhancement. These complementary segments provide different services and products and utilize different technologies for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

- *Reservoir Description:* Encompasses the characterization of petroleum reservoir rock, fluid and gas samples to increase production and improve recovery of oil and gas from our clients' reservoirs. We provide laboratory based analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry. We also provide proprietary and joint industry studies based on these types of analysis.

- *Production Enhancement:* Includes services and products relating to reservoir well completions, perforations, stimulations and production. We provide integrated diagnostic services to evaluate and monitor the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.

Results for these business segments are presented below and are consistent with the information which is reviewed by the Chief Operating Decision Maker ("CODM"). We use U.S. GAAP accounting policies to prepare our business segment results and adjustments are provided to reconcile segment results to our consolidated financial statements which are prepared using IFRS accounting policies. We evaluate performance based on income or loss from continuing operations before income tax, interest and other non-operating income (expense).

Summarized financial information concerning our segments is shown in the following table (in thousands):

	Reservoir Description	Production Enhancement	Corporate & Other (1)	US GAAP Consolidated	US GAAP to IFRS Adjustments	IFRS Consolidated
Six Months Ended June 30, 2019						
Revenues from unaffiliated customers	$ 208,941	$ 129,291	$ —	$ 338,232	$ —	$ 338,232
Inter-segment revenues	247	220	(467)	—	—	—
Segment income	22,057	20,336	2,029	44,422	2,965	47,387
Finance costs [2]	—	—	9,241	9,241	—	9,241
Share of profit (loss) of associates	97	—	—	97	—	97
Total assets (at end of period)	342,843	290,967	147,708	781,518	72,040	853,558
Capital expenditures	4,646	7,132	452	12,230	—	12,230
Intangible asset expenditures	(349)	478	(24)	105	—	105
Depreciation and amortization	7,821	2,727	825	11,373	8,367	19,740
Six Months Ended June 30, 2018						
Revenues from unaffiliated customers	$ 202,916	$ 142,577	$ —	$ 345,493	$ —	$ 345,493
Inter-segment revenues	120	152	(272)	—	—	—
Segment income	29,517	36,114	134	65,765	1,852	67,617
Finance costs [2]	—	—	6,408	6,408	—	6,408
Share of profit (loss) of associates	69	—	—	69	—	69
Total assets (at end of period)	319,122	218,011	67,611	604,744	74,206	678,950
Capital expenditures	7,565	3,785	565	11,915	—	11,915
Intangible asset expenditures	372	587	(81)	878	—	878
Depreciation and amortization	8,537	2,008	1,141	11,686	—	11,686

(1) "Corporate and other" represents those items that are not directly related to a particular segment and eliminations
(2) Finance revenue is immaterial to our operations, therefore "Finance costs" is shown net of finance revenue

Under IFRS for segment income, we recognize stock compensation expense on a more accelerated basis as compared with U.S. GAAP. For post-employment benefits, we recognize all actuarial gains and losses in Other comprehensive income, which are not amortized to profit (loss) in the Consolidated Statement of Profit or Loss. For leases, we recognize lease expense in accordance with U.S. GAAP ASC Topic 842, *Leases*, in which we evaluate whether the lease is an operating lease or a finance lease, and IFRS 16, *Leases*, in which all leases are classified as finance leases, resulting in a difference of total expense and the classification of those expenses under the two methods. In addition, in 2018, we recorded a provision for a subsequent event, which was recognized in 2019 for U.S. GAAP reporting.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of cash and cash equivalents, trade and other receivables, inventories, property, plant and equipment, right-of-use lease assets and intangible assets. Unallocated assets in Corporate and Other is comprised of deferred taxation and miscellaneous assets related to the corporate function. We recognized an adjustment to goodwill upon adoption of IFRS for prior acquisitions recorded under the pooling of interest method for U.S. GAAP. In addition, we recognize deferred tax assets related to timing differences for expense for stock compensation, post-employment benefits and leases, as noted above. Reclassification adjustments are also recorded between liabilities and assets to conform to IFRS presentation requirements.

Capital expenditures comprise additions to property, plant and equipment.

Our general and administrative costs are allocated to the segments on a proportional basis relative to each segment's cost of sales.

8. OTHER FINANCIAL ASSETS

The Company's only financial assets relate to certain aspects of the Company's employee benefit plans, such as the fair value of life insurance policies, and our derivative instruments. The fair value of the life insurance policies increased by $6.5 million during the six months ended June 30, 2019.

We use the market approach to value certain assets and liabilities at fair value using significant other observable inputs (Level 2) with the assistance of a third party specialist. We do not have any assets or liabilities measured at fair value on a recurring basis using quoted prices in an active market (Level 1) or significant unobservable inputs (Level 3). Gains and losses related to the fair value changes in the deferred compensation assets and liabilities are recorded in General and administrative expense in the Consolidated Statement of Profit or Loss. Gains and losses related to the fair value of the interest rate swaps are recorded in Other comprehensive income (loss). The following table summarizes the fair value balances (in thousands):

		Fair Value Measurement at June 30, 2019		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Deferred compensation assets [(1)]	$ 48,156	$ —	$ 48,156	$ —
5-year interest rate swap	24	—	24	—
	$ 48,180	$ —	$ 48,180	$ —
Liabilities:				
Deferred compensation plan	$ 36,994	$ —	$ 36,994	$ —
10-year interest rate swap	1,082	—	1,082	—
	$ 38,076	$ —	$ 38,076	$ —

		Fair Value Measurement at December 31, 2018		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Deferred compensation assets [(1)]	$ 41,527	$ —	$ 41,527	$ —
5-year interest rate swap	135	—	135	—
	$ 41,662	$ —	$ 41,662	$ —
Liabilities:				
Deferred compensation plan	$ 33,287	$ —	$ 33,287	$ —
10-year interest rate swap	70	—	70	—
	$ 33,357	$ —	$ 33,357	$ —

(1)Deferred compensation assets consist of the cash surrender value of life insurance policies and are intended to assist in the funding of the deferred compensation agreements and are included in Other assets in the Consolidated Statement of Financial Position

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to market risks relating to fluctuations in interest rates. To mitigate these risks, we utilize derivative instruments in the form of interest rate swaps. We do not enter into derivative transactions for speculative purposes.

Interest Rate Risk

Our Credit Facility bears interest at variable rates from LIBOR plus 1.375% to a maximum of LIBOR plus 2.00%. As a result of two interest rate swap agreements, we are subject to interest rate risk on debt in excess of $50 million drawn on our Credit Facility.

In 2014, we entered into two interest rate swap agreements for a total notional amount of $50 million to hedge changes in the variable rate interest expense on $50 million of our existing or replacement LIBOR-priced debt. Under the first swap agreement of $25 million, we have fixed the LIBOR portion of the interest rate at 1.73% through August 29, 2019, and under the second swap agreement of $25 million, we have fixed the LIBOR portion of the interest rate at 2.5% through August 29, 2024. Each swap is measured at fair value and recorded in our Consolidated Statement of Financial Position as an asset or liability. They are designated and qualify as cash flow hedging instruments. Unrealized losses are deferred to shareholders' equity as a component of accumulated other comprehensive income (loss) ("AOCL") and are recognized in income as an increase or decrease to interest expense in the period in which the related cash flows being hedged are recognized in expense.

At June 30, 2019, we had fixed rate long-term debt aggregating $200 million and variable rate long-term debt aggregating $92 million, after taking into account the effect of the swaps.

The fair values of outstanding derivative instruments are as follows (in thousands):

	June 30, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps - cash flow hedge	$ 24	$ 1,082	$ 135	$ 70

The fair value of all outstanding derivatives was determined using a model with inputs that are observable in the market (Level 2) or can be derived from or corroborated by observable data.

The effect of the interest rate swaps on the Consolidated Statement of Profit and Loss was as follows (in thousands):

	Six Months Ended June 30,		
	2019	2018	Profit or Loss Classification
Derivatives designated as hedges:			
5-year interest rate swap	$ (96)	$ (4)	Increase (decrease) to interest expense
10-year interest rate swap	2	93	Increase (decrease) to interest expense
	$ (94)	$ 89	

10. INVENTORIES

Inventories consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
Finished goods	$ 26,928	$ 26,636
Parts and materials	19,618	13,704
Work in progress	2,765	5,324
Inventories, net	$ 49,311	$ 45,664

The balances above are net of valuation reserves of $3.3 million and $4.1 million at June 30, 2019 and December 31, 2018, respectively.

11. EQUITY

Share capital

The authorized share capital of the Company at June 30, 2019 amounts to EUR 4.12 million and consists of 200,000,000 ordinary shares with a par value of EUR 0.02 each and 6,000,000 preferred shares with a par value of EUR 0.02 each.

Issued and paid in share capital is $63.3 million and consists of 44,796,252 issued ordinary shares with a par value of EUR 0.02 each. Repurchased ordinary shares amounts to $45.9 million and consists of 441,455 ordinary shares with a par value of EUR 0.02 each.

The movements in the number of shares are as follows:

	Ordinary Shares	Repurchased Ordinary Shares	Shares Outstanding
Balance at January 1,2019	44,796,252	(479,407)	44,316,845
Issuance of ordinary shares for share-based awards	—	54,008	54,008
Repurchased own shares	—	(16,056)	(16,056)
Balance at June 30, 2019	44,796,252	(441,455)	44,354,797

	Ordinary Shares	Repurchased Ordinary Shares	Shares Outstanding
Balance at January 1,2018	44,796,252	(612,047)	44,184,205
Issuance of ordinary shares for share-based awards	—	55,589	55,589
Repurchased own shares	—	(36,258)	(36,258)
Balance at June 30, 2018	44,796,252	(592,716)	44,203,536

Treasury Shares

During the six months ended June 30, 2018, we repurchased 16,056 of our common shares for $1.1 million, which were surrendered to us pursuant to the terms of a stock-based compensation plan in consideration of the participants' tax burdens that may result from the issuance of common shares under that plan. Such common shares, unless canceled, may be reissued for a variety of purposes such as future acquisitions, non-employee director stock awards or employee stock awards. We distributed 54,008 treasury shares upon vesting of stock-based awards during the six months ended June 30, 2019.

Dividends

In February and May, 2019, we paid a quarterly dividend of $0.55 per share of common stock.

12. BORROWINGS

We have two series of senior notes outstanding with an aggregate principal amount of $150 million ("Senior Notes") issued in a private placement transaction. Series A consists of $75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.01% and are due in full on September 30, 2021. Series B consists of $75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.11% and are due in full on September 30, 2023. Interest on each series of the Senior Notes is payable semi-annually on March 30 and September 30.

The aggregate borrowing commitment under our revolving credit facility (the "Credit Facility") is $300 million. The Credit Facility provides an option to increase the commitment under the Credit Facility by an additional $100 million to bring the total borrowings available to $400 million if certain prescribed conditions are met by the Company. The Credit Facility bears interest at variable rates from LIBOR plus 1.375% to a maximum of LIBOR plus 2.00%. Any outstanding balance under the Credit Facility is due June 19, 2023, when the Credit Facility matures. Our available capacity at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled $20.1 million at June 30, 2019, resulting in an available borrowing capacity under the Credit Facility of $137.9 million. In addition to those items under the Credit Facility, we had $12.8 million of outstanding letters of credit and performance guarantees and bonds from other sources as of June 30, 2019.

The estimated fair value of total debt at June 30, 2019 and December 31, 2018 approximated the book value of total debt. The fair value was estimated using Level 2 inputs by calculating the sum of the discounted future interest and principal payments through the date of maturity.

Debt at is summarized in the following table (in thousands):

	June 30, 2019	December 31, 2018
Senior Notes	$ 150,000	$ 150,000
Credit facility	142,000	142,000
Deferred debt acquisition costs	(1,978)	(2,230)
Total borrowings	$ 290,022	$ 289,770
Less - current maturities	—	—
Borrowings, net	$ 290,022	$ 289,770

In 2014, we entered into two interest rate swap agreements for a total notional amount of $50 million. See Note 9 - *Derivative Instruments and Hedging Activities*.

The terms of the Credit Facility and Senior Notes require us to meet certain covenants, including, but not limited to, an interest coverage ratio (consolidated EBITDA divided by interest expense) and a leverage ratio (consolidated net indebtedness divided by consolidated EBITDA), where consolidated EBITDA (as defined in each agreement) and interest expense are calculated using the most recent four fiscal quarters. The Credit Facility has the more restrictive covenants with a minimum interest coverage ratio of 3.0 to 1.0 and a maximum leverage ratio of 2.5 to 1.0. We believe that we are in compliance with all such covenants contained in our credit agreements. Certain of our material, wholly-owned subsidiaries are guarantors or co-borrowers under the Credit Facility and Senior Notes.

We do not have any exposure to sub-prime lending or collateralized debt obligations. We believe our future cash flows from operating activities, supplemented, if necessary, by our borrowing capacity under existing facilities and our ability to issue additional equity should be sufficient to meet our contractual obligations, capital expenditures, working capital needs and to finance future acquisitions.

13. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Provisions consist of accrued amounts related to claims from clients, and amounts due under certain service agreements and contractual commitments.

Claims from clients occur from disputes that may arise from the providing of services. These are investigated and resolved once a determination is made. The timing of any potential settlement varies for each claim.

The movement of provision is as follows (in thousands):

Balance at January 1, 2019	$ 6,607
Charged (credited) to the statement of profit or loss:	
Additional provisions	3,168
Change in contract liabilities	(825)
Used during the year	(5,336)
Balance at June 30, 2019	$ 3,614

14. CONTRACT ASSETS AND CONTRACT LIABILITIES

The balance of contract assets and contract liabilities consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
Contract assets		
Current	$ 892	$ 1,145
Non-current	—	188
	$ 892	$ 1,333
Contract liabilities		
Current	$ 6,379	$ 5,963
Non-current	576	1,401
	$ 6,955	$ 7,364

	June 30, 2019
Estimate of when contract liabilities will be recognized as revenue	
within 12 months	$ 6,379
within 12 to 24 months	576
greater than 24 months	—

We did not recognize any impairment losses on our receivables and contract assets for the six months ended June 30, 2019 or June 30, 2018.

15. PENSIONS AND OTHER POSTRETIREMENT BENEFIT PLANS

	June 30, 2019	December 31, 2018
Obligations for:		
Post-employment benefits - Dutch Defined Benefit Plan	$ 7,219	$ 7,398
Post-employment benefits - SERP	18,386	17,419
Post-employment benefits - Deferred Compensation Plan	36,994	33,294
Post-employment benefits - Employee Severance	11,184	14,672
Liability on the Consolidated Statement of Financial Position	$ 73,783	$ 72,783

Supplemental Executive Retirement Plan (SERP) Benefits

SERP benefits represent an accrual for future payouts guaranteed to employees upon departure from the Company. In 1998, we entered into employment agreements with our senior executive officers that provided for severance benefits. The value of the long-term liability for the benefits due upon severing the employment of these employees is $10.4 million at June 30, 2019. The remaining $7.9 million balance is for the non-executive employees of the Company.

Deferred Compensation

Deferred Compensation relates to additional retirement liabilities for certain employees of the Company. The benefits under these contracts are fully vested and payment of benefits generally commences as of the last day of the month following the termination of services except that the payment of benefits for select executives generally commences on the first working day following a six month waiting period following the date of termination.

Employee Severance

Employee severance relates to payments to be made to certain employees upon departure from the Company. Some of the severance payments are guaranteed in employment contracts totaling approximately $5.4 million at June 30, 2019. The remaining $5.8 million balance is for severance payments to employees required by certain local jurisdictions.

Defined Benefit Plan

The components of net periodic pension cost under this plan included (in thousands):

	Six Months Ended June 30,	
	2019	**2018**
Service cost	$ 381	$ 741
Interest cost	519	636
Expected return on plan assets	(461)	(549)
Net periodic pension cost	$ 439	$ 828

The net periodic pension cost of $0.4 million and $0.8 million for the six months ended June 30, 2019 and 2018, respectively was recognized in Cost of services in the Consolidated Statement of Profit or Loss.

16. INCOME TAXES

The effective tax rates for the six months ended June 30, 2019 and 2018 were (56.4)% and 21.1%, respectively. Income tax expense (benefit) for the six months ended June 30, 2019 included a net tax benefit of $58.5 million which resulted from a corporate restructuring in the first half of 2019 and tax expense of $26.7 million related to unremitted earnings of foreign subsidiaries that we no longer consider to be indefinitely reinvested, each of which was a discrete item in 2019, along with changes in activity levels in jurisdictions with differing tax rates.

17. EARNINGS PER SHARE

The following table summarizes the calculation of weighted average common shares outstanding used in the computation of diluted earnings per share (in thousands):

	Six Months Ended June 30,	
	2019	**2018**
Weighted average basic common shares outstanding	44,339	44,191
Effect of dilutive securities:		
Contingent shares	115	255
Restricted stock and other	394	69
Weighted average diluted common and potential common shares outstanding	44,848	44,515

18. Revenue from Contracts with Customers

Revenue Recognition

All of our revenue is derived from contracts with clients and is reported as revenue in the Consolidated Statement of Profit or Loss. Our contracts generally include standard commercial payment terms generally acceptable in each region, and do not include financing with extended payment terms. We have no significant obligations for refunds, warranties, or similar obligations. Our revenue does not include taxes collected from our customers. In certain circumstances we apply the guidance in IFRS 15 - *Revenue From Contracts with Customers* ("IFRS 15") to a portfolio of contracts with similar characteristics. We use estimates and assumptions when accounting for a portfolio that reflect the size and composition of the portfolio of contracts.

A performance obligation is a promise in a contract to transfer a distinct service or good to a client, and is the unit of account under IFRS 15. We have contracts with two general groups of performance obligations: those that require us to perform analysis and/or diagnostic tests in our laboratory or at the client's wellsite and those from the sale of tools, diagnostic and equipment products and related services. We recognize revenue at an amount that reflects the consideration expected to be received in exchange for such services or goods as described below by applying the five-step method to: (1) identify the contract(s) with clients; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) in the contract; and (5) recognize revenue when (or as) we satisfy the performance obligation(s).

Services Revenue: We provide a variety of services to clients in the oil and gas industry. Where services are provided related to the testing and analysis of rock and fluids, we recognize revenue upon the provision of the test results or analysis to the client. For our design, field engineering and completion diagnostic services, we recognize revenue upon the delivery of those services at the well site or delivery of diagnostic data. In the case of our consortia studies, we have multiple performance obligations and revenue is recognized at the point in time when the testing and analysis results on each contributed core are made available to our consortia members. We conduct testing and provide analysis services in support of our consortia studies recognizing revenue as the testing and analysis results are made available to our consortia members.

Product Sales Revenue: We manufacture equipment that we sell to our clients in the oil and gas industry. Revenue is recognized when title to that equipment passes to the client, which is typically when the product is shipped to the client or picked up by the client at our facilities, as set out in the contract.

For arrangements that include multiple performance obligations, we allocate revenue to each performance obligation based on estimates of the price that we would charge the client for each promised service or product if it were sold on a standalone basis.

To a lesser extent in all of our business segments, we enter into other types of contracts including service arrangements and non-subscription software and licensing agreements. We recognize revenue for these arrangements over time or at a point in time depending on our evaluation of when the client obtains control of the promised services or products.

Contract Assets and Liabilities

Contract assets and liabilities result due to the timing of revenue recognition, billings and cash collections.

Contract assets include our right to payment for goods and services already transferred to a customer when the right to payment is conditional on something other than the passage of time, for example contracts where we recognize revenue over time but do not have a contractual right to payment until we complete the performance obligations. Contract assets are included in our accounts receivable and are not material as of June 30, 2019.

Contract liabilities consist of advance payments received and billings in excess of revenue recognized. We generally receive up-front payments relating to our consortia studies; we recognize revenue over the life of the study as the testing and analysis results are made available to our consortia members. We record billings in excess of revenue recognized for contracts with a duration less than twelve months as unearned revenue. We classify contract liabilities for contracts with a duration greater than twelve months as current or non-current based on the timing of when we expect to recognize revenue. The current portion of contract liabilities is included in unearned revenue and the non-current portion of contract liabilities is included in long-term liabilities in our Consolidated Statement of Financial Position. The total balance of our contract liabilities at June 30, 2019 and December 31, 2018 was $7.0 million and $7.4 million, respectively.

Disaggregation of Revenue

We contract with clients for service revenue and/or product sales revenue. We present revenue disaggregated by services and product sales in our Consolidated Statement of Profit or Loss. For revenue disaggregated by reportable segment, please see Note 7, *Segment Reporting*.

19. LEASES

We adopted the new standard using the cumulative-effect adjustment method, with the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity on January 1, 2019 and therefore did not restate comparative amounts for 2017.

Definition of a lease

At the inception date of the contract, we assess whether we have the right to obtain substantially all of the economic benefits from use of the leased asset throughout the period of use in exchange for consideration; and if we can direct how the leased asset is used.

Lessee Accounting

At the lease commencement date, we recognize a right-of-use asset and a lease liability.

Right-of-Use Assets

The right-of-use asset ("ROU asset") is initially recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Where our leases do not provide an implicit rate, we use our IBR based on the information available at commencement date. The ROU asset also includes all lease payments made at or before the commencement date, plus initial direct costs incurred. Our lease term may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

We have lease agreements with lease and non-lease components which are accounted for separately for all classes of assets, except for vehicle leases where the lease and non-lease components are accounted for as a single lease component.

The right-of-use assets are subsequently depreciated using the straight-line basis, over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment and adjusted for remeasurements of lease liabilities.

ROU assets at June 30, 2019 consisted of the following (in thousands):

	Land	Buildings	Equipment	Vehicles	Other	Total
Gross Balance	$ 2,325	$ 70,695	$ 1,052	$ 8,928	$ 517	$ 83,517
Accumulated Impairment	—	—	—	—	—	—
Accumulated Amortization	(169)	(5,972)	(204)	(1,793)	(229)	(8,367)
Net Balance	$ 2,156	$ 64,723	$ 848	$ 7,135	$ 288	$ 75,150

Lease Liabilities

The lease liability is initially measured as the present value of outstanding lease payments, discounted using the IBR. The lease liability is subsequently measured at amortized cost using the effective interest method and is remeasured when there is a change in future lease payments arising, for example, from renegotiations of the lease contract, a change in an index, or if we change our assessment of whether we will exercise extension or termination options. A corresponding adjustment is made to the carrying amount of the right-of-use asset, and excess over the carrying amount of the asset, if any, being recognized in the Consolidated Statement of Profit or Loss within other costs.

At the end of the lease term or at early termination of the lease, the cost of the right-of-use asset, accumulated depreciation, and outstanding lease liability, are written-down with the difference, if any, recorded in the Consolidated Statement of Profit or Loss within other costs.

Finance lease obligations at June 30, 2019 consisted of the following (in thousands):

	June 30, 2019
Current	$ 12,968
Non-current	62,737
Total finance lease liability	$ 75,705

Short-term and low-value leases

We elected that the lease payments associated with lease contracts with a term of 12 months or less and leases of low value assets (lease payments less than $100 per month) are recognized on a straight-line basis over the lease term.

Significant Accounting Estimates and Judgments

Key judgments and estimates to apply IFRS 16 include determining the lease term, i.e. when renewal and termination options are reasonably certain to be exercised, and the determination of the discount rate in order to calculate the present value of the lease liabilities and lease receivables.

Lease term

The lease term comprises the non-cancellable period of lease contracts, plus periods covered by reasonably certain renewal options and periods covered by a termination option, if we are reasonably certain not to exercise that option.

We assesses whether it is reasonably certain we will exercise renewal and termination options at the lease commencement date and subsequently, if there is a change in circumstances within our control.

Discount rate

Where a lease does not have an implicit rate, we have elected to use our IBR as a discount rate. The IBR is the rate that a lessee would pay to attract required funding to purchase the asset over a similar term, with a similar security and in a similar economic environment.

20. COMMITMENTS AND CONTINGENCIES

We have been and may from time to time be named as a defendant in legal actions that arise in the ordinary course of business. These include, but are not limited to, employment-related claims and contractual disputes or claims for personal injury or property damage which occur in connection with the provision of our services and products. Management does not currently believe that any of our pending contractual, employment-related, personal injury or property damage claims and disputes will have a material effect on our future results of operations, financial position or cash flow.

We do not maintain any off-balance sheet debt or other similar financing arrangements nor have we formed any special purpose entities for the purpose of maintaining off-balance sheet debt.

21. RELATED PARTIES

During the six months ended June 30, 2019, we repurchased 16,056 of our common shares for $1.1 million, which were surrendered to us pursuant to the terms of a stock-based compensation plan in consideration of the participants' tax burdens that may result from the issuance of common shares under that plan. Such common shares, unless canceled, may be reissued for a variety of purposes such as future acquisitions, non-employee director stock awards or employee stock awards. We distributed 54,008 treasury shares upon vesting of stock-based awards during the six months ended June 30, 2019.

In 2019, we granted 2,177 shares of our common stock to each of our non-employee Directors. These shares will vest without performance obligations on March 31, 2020.

We had no other significant related party transactions for the six month period ended June 30, 2019.

20. SUBSEQUENT EVENTS

On July 12, 2019, we declared a quarterly dividend of $0.55 per share of common stock which was paid on August 12, 2019 to shareholders of record on July 22, 2019.