Finding hydrocarbons

EMGS Annual report 2007



A GLOBAL PRESENCE



EMGS operates in the global oil and gas market. It is critical that EMGS matches its current and potential clients' requirements. To this end, EMGS continues to build up a strong local presence through its own offices as well as local representation through agents and partners. This ensures close contact with our clients and efficient mobilisation. EMGS's main office is in Trondheim, Norway with subsidiaries in:

- Trondheim, Norway (EMGS Headquarters)
- Stavanger, Norway
 (Europe, Africa & Middle
 East Business Unit)
- Houston, USA
 (North & South America Business Unit)
- Kuala Lumpur, Malaysia (Asia Pacific Business Unit)

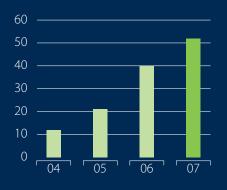


We also have offices in:

 Oslo (Norway), Paris (France), London (UK), Rio de Janeiro (Brazil), Mumbai (India), Perth (Australia)

Our vessels operate throughout the world.

VESSEL CAPACITY Number of vessel months per year



REVENUE PER REGION 2007





REVENUE PER REGION 2006



The primary aim of this report is to meet our regulatory disclosure obligations as a company with publicly-held shares. Our intention is to surpass this basic requirement and to give the reader a comprehensive insight into EMGS; who we are, what we do and the market in which we operate.

Therefore, in addition to the financial statements, directors' reports and management biographies contained in this report, we have provided more information about our new developments in electromagnetic technology as well as some case studies illustrating how EMGS continues to lead the way in developing the global electromagnetic-surveying market.



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Finding hydrocarbons. While seismic technology uses acoustic waves to recognise geological structures, electromagnetic (EM) technology uses EM energy as a direct hydrocarbon indicator. We help our clients target what they are actually looking for.

Future exploration success rates

25%

IMPROVING EXPLORATION PERFORMANCE AND EFFICIENCY

3 out of 4 exploration wells are today unsuccessful, and finding costs per barrel have almost tripled in the last 5 years. EM-led exploration is designed to help operators find more hydrocarbons with the same or fewer resources.

USD billion

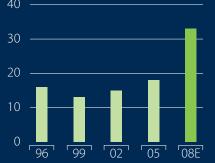
90%

50%

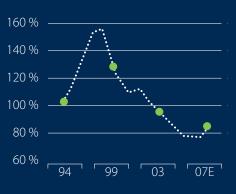
२೧%

10%

EXPLORATION SPENDING



DECLINING RESERVE REPLACEMENT RATES Percent



The oil and gas industry is spending more money every year without seeing new discoveries that match consumption. A reserve replacement ratio below 100 % is not sustainable over time. New technology, like EM, can help turn this trend around, yielding clear benefits for the oil and gas companies and the world economy.

•••••

During 2007 EMGS made several important achievements to move EM-surveying forward.

140 million USD

In addition to the IPO in March, we mobilised our fifth vessel, opened up a significant new market in Australia and added a promising new product by introducing scanning. Our revenues increased by 19% over 2006, continuing our year on year growth trend.

74[%] market share

As the inventor of EM-surveying technology and the first commercial player, in 2007 we maintained our role as the undisputed market leader. We intend to use our first mover advantage and multiple years of operational experience to continue this position.

EMGS has unrivalled experience and a clear technological

advantage. These characteristics allow us to gather, process and interpret EM data more efficiently than anyone else and to deliver real value to our clients.

EMGS helps oil and gas exploration companies of all sizes to find offshore hydrocarbons – oil and gas reserves – all around the world. We provide this service through the application of EM-surveying technology.

TECHNOLOGY

The founders of EMGS are recognised as the inventors of seabed logging, the first successful application of controlled-source EM surveying technology in the offshore oil and gas exploration industry.

The integration of EM methods into exploration workflows enables oil and gas companies to detect the presence of hydrocarbons far more efficiently than using traditional exploration techniques alone. Through the use of EMGS's EM-imaging technology, our clients have seen the probability of finding oil and gas reservoirs increase dramatically.

EM-surveying technology is now seen as game-changing in that it significantly increases the exploration success rate compared to using seismic surveying techniques alone. The technology is not a direct

replacement for seismic methods, but is complementary, providing greater certainty of discovery before drilling. Integration of EM-surveying technology into the exploration workflow can dramatically reduce the number of dry wells that are drilled, which greatly reduces exploration costs.

Our technology does not consist of a recipe which can easily be copied. Rather, EMGS's technological advantage is based on a combination of equipment and analysis. Often the equipment we use is bespoke or sourced on an exclusive basis from specialist suppliers. This combination makes it difficult for our potential competitors to challenge our leadership position. We continue to make significant investment in research and development to ensure that this situation continues.





···· EMGS people

- Acquisition crews, trained in-house
- More than 40 specialists in EMGS's R&D department
- More than 260 highly skilled and motivated employees

INTELLECTUAL PROPERTY

Terje Eidesmo, EMGS's President and CEO and Svein Ellingsrud, its CTO, are the inventors of the EM-surveying method. This was first patented in 1997.

EMGS remains the global leader in the planning, acquisition, processing, modelling and interpretation of EM data. EMGS has extensive experience, well established routines and leading edge processing and modelling software. We have without doubt the greatest experience in interpreting and understanding EM data.

Additionally, we have rigorous patent protection in place to protect the commercial advantage which we derive from our technology. EMGS has more than 150 patents related to EM acquisition worldwide, providing us with the protection we need to continue development of the broad range of EM products to ensure EMGS's continued pre-eminence in our market.

PEOPLE

EMGS is a rapidly expanding team, dedicated to helping operators improve their exploration performance and increasing the likelihood of finding offshore hydrocarbons. We now have more than 260 employees worldwide.

EMGS attracts talented and energetic people who thrive in our dynamic business. Our workforce includes survey personnel, geoscientists, physicists and software engineers.

We have a dedicated research and development group. Its focus is the continued improvement in the design of our survey equipment and our processing and modelling capabilities.

EMGS has invested heavily in increasing its fleet of survey vessels and equipping them with its latest technology. Our survey personnel are highly trained and have been recognised by, among others, ExxonMobil for their contribution to safety.

OUR BUSINESS: A QUICK OVERVIEW

EMGS: leading the global EM market

During 2007, EMGS attracted a large number of new customers, significantly improved its technology, expanded its vessel fleet and added to its skill base. This leaves us well placed to capitalise on the growing EM market.

CLIENTS

The majority of leading oil and gas companies use EMGS as their provider of EM surveys, processing, modelling and interpretation. Our clients include Shell, ExxonMobil, StatoilHydro, BP, Reliance, ONGC, Petronas, Woodside and Murphy. In addition, we are also the preferred research and development partner for several major companies.

EM technology is being used by all types of oil and gas exploration companies. We have increasing numbers of large and small national and independent companies using our services.

Some companies, like Rocksource, have recognised the importance of EM technology, putting it at the heart of their business models.

VESSELS

EMGS has the largest EM surveying fleet in the industry, with five operational vessels and two more custom-built vessels under construction. This fleet operates in all of the major hydrocarbon basins around the world.

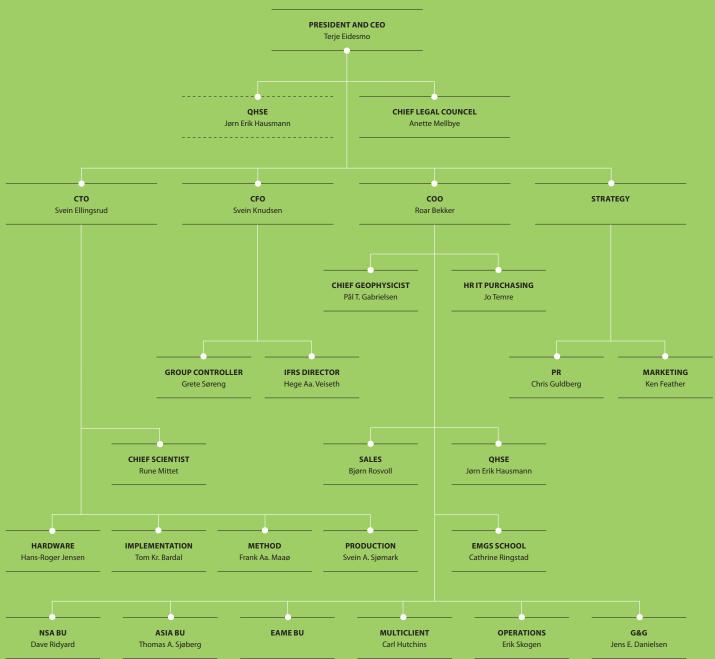
We have robust, well-equipped vessels. As we have long-term charters, we can retain first-rate crews with extensive experience of EM operations. Dedicated EMGS engineers manage all tasks that directly or indirectly impact on data quality.

PRODUCTS AND SERVICES

EMGS's clients have the advantage of access to a comprehensive EM service. This includes:

- ···· Feasibility studies
- Survey design
- Data acquisition
- Data processing
- Modelling
- ····· Imaging
- Interpretation

Each of these elements can be performed as a stand-alone service, although a key strength of EMGS lies in its ability to undertake the entire process as an integrated package.



ORGANISATION

LETTER FROM THE CEO

Terje Eidesmo, President and CEO

This has been a good year for EMGS and we have made strong progress in a number of key areas. I am particularly proud of three things: we have continued to grow the global EM market; we have developed our technological position significantly; and we have enhanced the EMGS team by recruiting highquality people. I am delighted to be able to say that awareness of EM technology within the oil and gas sector has now increased to the point where it is now universally known and understood. For a technology that was only invented in 1997 this is a very significant achievement.

We continue to see an improvement in our order pipeline. However, the nature of our business means that revenues are often difficult to predict, as we found in the last quarter of the year.

There is no doubt that as well as achieving full market awareness, EM technology is now accepted as truly game-changing. We are confident that the offshore EM industry has the potential to grow to the size of the seismic industry. Further third party confirmation of the acceptance of EM-surveying technology came during the year when Svein Ellingsrud and I received the highly regarded Virgil Kauffman Gold Medal for initiating the first substantial test of controlledsource electromagnetics (CSEM) for direct hydrocarbon indication.

The scale of our achievement – positioning EM technology as understood and accepted by the market – is considerable. Indeed it is difficult to think of another company, with such a breakthrough technology, achieving so much progress in less than ten years in any other industry.

I believe that EMGS will lead the next shift forwards in the global oil industry. I say this because, in my view, we have the best people, the best technology, and the best analysis tools. Whilst no one of these factors would, of itself, be unassailable, my belief is that the combination of all of them is unbeatable. An increasing number of oil service industry players have expressed intentions to enter, or have entered, the EM market over the last year. To counter this, in addition to building our market position and our reputation, where necessary we are robustly defending our strong patent position. We expect further patent challenges as more companies realise the game-changing nature of EMGS's technology and will continue to defend our patents in the interests of our shareholders and other stakeholders.

Increasingly, the key challenge for EMGS is to convert awareness and acceptance of our technology into adoption. Here, too, we have seen major progress with a wide variety of oil and gas companies of all sizes, and from around the world, using EMGS both for the first time and for repeat business.

EMGS saw a number of significant business developments over the year:

In November we were delighted to welcome Roar Bekker to EMGS as our new Chief Operating Officer responsible for day-to-day operations worldwide. Roar was previously Vice President, Industry Affairs, for Schlumberger Norway and has spent the last 23 years in Schlumberger and WesternGeco on assignments throughout the world. He has an extensive experience from technical and management positions in Houston, Singapore, Kuala Lumpur, Dubai, Stavanger and London.

Our acquisition of the exclusive worldwide rights to patented EM technology developed by KMS Technologies (Houston) in December enables us to broaden our ability to support oil and gas exploration companies searching for new reserves in shallow waters.

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We added the *MV Siem Mollie* to the EMGS fleet of vessels in August 2007, bringing the total number to five. The vessel's specifications are similar to those of *MV Siem Sasha*. Our new vessel started operations in August 2007.

As I look at the year ahead, I am confident that we are poised to build on the progress that we made in 2007.

I am convinced, not just by our success in 2007, but also by the energy and enthusiasm I see throughout the Group, that the strategy we are implementing will allow EMGS to continue to build on its position as the pioneer and leader in the EM market.

To all of our people I would like to say a sincere thank you for the commitment,

professionalism, and for the determination they have shown over the year. It is to their ability that we owe our strong progress in 2007 and it is their skills that are EMGS's greatest asset.

Thank you for your continued support.

Yours sincerely,

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Terje Eidesmo President and CEO

ETTER FROM THE CHAIRMAN

Biarte H. Bruheim, Chairman of the Board

Dear EMGS shareholders

2007 was a year of progress for EMGS. As planned, the Company expanded rapidly and through the IPO we secured the financing we needed to fund future growth.

EMGS continued to dominate the global marine EMsurveying industry in 2007 and we expect to maintain this leadership position.

Over the year we worked for existing clients and captured new ones in all categories. EMGS has now proven its technology in all of the major hydrocarbon basins around the world

In 2007 we successfully launched a new scanning product, which is becoming the 'first-look' exploration tool of choice. This has opened up a new market for EMGS, which we expect to see grow rapidly.

We have also introduced EMGS Multi-Client Services, providing multi-client surveys in basins across the world. We expect this business to contribute materially over the coming years.

EMGS continued to dominate the global marine EM-surveying industry in 2007 and we expect to maintain this leadership position. The acquisition of our interest in KMS added to our technical capabilities and strengthened our position in shallow-water EM acquisition and data processing.

EMGS has strengthened its EM-surveying competence position and now has more

than 260 highly trained employees. This exceptional team gives us a strong position within the high-growth and increasingly competitive EM market.

Our technological position continues to strengthen and, with the completion of the EMGS inversion data processing product, EMGS is ready to scale up its scanning and 3D product portfolio.

EMGS has established operations and data services worldwide and operates these in a safe and environmentally aware manner.

The focus of our organisation remains to build on our leadership position in the offshore EM-surveying market. I am fully confident that EMGS is better placed than ever before to achieve this.

Yours sincerely

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Biarte H. Bruheim Chairman of the Board

HIGHLIGHTS AND KEY FIGURES 2007

EMGS is uniquely placed in a new and fast-growing industry and has a scalable business model.

140 million USD in revenue

EMGS ended 2007 with five vessels in operation and more than 260 highly skilled professionals employed.

···· Rapid growth

- From 22 million USD in revenue in 2004
- From one to five vessels in three years
- From 35 employees in 2004

Pioneering offshore EM technology

- Since founding the EM industry in 2002, EMGS has continued to add to its marketleading IP position
- Technological developments are continually assessed internally and, if appropriate, patent applications are filed
- This year, Terje Eidesmo and Svein Ellingsrud received the highly prestigious Virgil Kauffman Gold Medal for initiating the first substantial test of controlled-source electromagnetics for direct hydrocarbon indication

A recognised and accepted game-changing technology

- EM-surveying technology is now widely known and recognised as a disruptive technological advance that marks a major breakthrough in hydrocarbon detection
- EMGS's client list now spans the globe and covers all categories of oil and gas company
- EMGS's repeat business is growing and its average contract size is rising

EMGS is in robust financial health

- Continued revenue growth: up 19 % in 2007
- A strong balance sheet with the capital to fund further business growth
- Survey and processing equipment secured for expansion

A STRONG POSITION

Primary value proposition: increasing exploration efficiency and performance

Since 2002, EMGS has created an entirely new market that is based on the proposition that EM-surveying can help oil and gas companies to find commercial-scale offshore hydrocarbons more efficiently.

HOW EM-SURVEYING WORKS

EMGS uses EM energy to identify hydrocarbons. Unlike most rocks with saline water in its pores which conducts electricity, hydrocarbon-filled rocks are typically electrically resistive.

We tow a powerful EM source close to the seabed, which emits low-frequency energy into the subsurface. The wave shape, current amplitude and timing are controlled to maximise the signal at the target.

We then use lines or grids of seabed receivers to detect EM energy that has propagated through the sea and the subsurface. Some of the energy is guided by resistive bodies, such as hydrocarbon reservoirs. It is this behaviour that we use to help identify oil and gas reservoirs.

Processing and modelling of the data, including inversion and depth migration, can produce maps, cross sections and 3D volumes which show the location and the depth of resistive bodies.

EMGS'S TECHNOLOGY PLATFORM

The conditions under which EM surveys are conducted demand that only reliable equipment be used. EMGS has invested over the years to produce a unique, often proprietary, array of EM-surveying equipment and processing technology that ensures the acquisition of high quality survey data.

EMGS has conducted more EM surveys than anyone else. We have more than 110 vessel months of data acquisition experience and have completed more than 300 commercial surveys for clients.

EMGS is continually investing in research and development to expand and strengthen this leading technological position. We also protect this position through a robust patent protection strategy. EMGS has successfully defended its patents to date and expects more challenges in the future as other companies attempt to catch us up.

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WHY USE EM-IMAGING?

EM-surveying technology significantly improves the offshore hydrocarbon exploration success rate. This is a major benefit that offers the potential for significant cost savings for our clients. For example, exploration success rates for two Indian oil and gas clients were around 20% from 2000 to 2006, but leapt to 50% in 2007 when both companies started integrating EM-surveying into their workflows.

However, the usefulness of EM surveying does not end at detection. The technology can be applied at all stages in the life of a hydrocarbon field: to improve exploration efficiency in the world's frontier basins, to appraise and delineate proven reservoirs, and to re-evaluate mature basins. EM technology also has the potential to be used for monitoring reservoirs in producing fields.

AN ACCEPTED TECHNOLOGY

EMGS and its key team members have won a number of prestigious oil and gas industry awards during its relatively short history.

In 2007, Terje Eidesmo and Svein Ellingsrud received the Virgil Kauffman Gold Medal for initiating the first substantial test of controlled-source electromagnetics (CSEM) for direct hydrocarbon indication.

Additionally, the jury referred to EM as being "possibly the most significant technology in oil exploration since 3D seismic".

Discovery rates offshore India have dramatically increased due to increasing understanding of basin geology and systematic application of EMGS's EMimaging technolgy

V. K. Sibal, Director General, Directorate General of Hydrocarbons



THE TECHNOLOGY

EMGS is a pioneer and the world leader in the rapidly expanding offshore EMsurveying market, with an unparallelled capability to integrate EM and other geological data.

THE MARINE EM AND **SEISMIC MARKET 2007** The offshore EM-surveying sector is a small but rapidly expanding segment in the marine geophysical industry



EM is increasingly seen as a game-changing technology that significantly increases oil and gas exploration success rates.

The success of EM-surveying technology is perhaps best illustrated by the fact that the national oil and gas regulatory authorities in some countries now accept EM data as firm evidence of the existence, or absence, of commercial-scale hydrocarbon reserves. In other words, companies can fulfil their licence commitments without the requirement to drill dry wells which merely prove the absence of hydrocarbons. This reduces

the companies' costs, the environmental impact and frees resources - which can be better targeted.

Customized equipment for the

deployment of EMGS exclusive EM source used in data acquisition

EM-surveying technology is complementary to seismic methods. It can be applied independently, but is best integrated with seismic and other methods to reduce drilling risks.

Morgan Stanley has stated that "the implications [of EM-surveying technology] on oil services are bigger than anything we have seen since the commercialisation of 3D seismic in the early 1990s".

PROVEN OPERATIONAL EXPERIENCE

EMGS has more operational experience than any other company in the EM market, having conducted over 300 surveys and with more than 110 vessel months of data acquisition experience. While towing an EM source, our vessels have travelled a greater distance than the earth's equatorial circumference. EMGS has invested heavily in increasing its fleet of survey vessels and equipping them with the latest technology. Our survey personnel are highly trained and have been recognised by ExxonMobil for their contribution to safety.

EMGS's fleet now consists of:

MV Stad Angler, which has been in operation since June 2003. During 2007 this vessel has been operating in North and South American waters.

MV Atlantic Guardian, which was converted especially for EM surveying and has been in active service since April 2005. This vessel has been operating principally in Australian waters.

MV Siem Sasha, which started survey work in December 2005. The vessel is designed with a well deck for maximum protection for cargo and crew and has lately been stationed in Indian waters.

MV Relume, which started operations in September 2006. The vessel has been dedicated to operations in Norwegian waters and West Africa.

MV Siem Mollie, which is the latest addition to EMGS's survey fleet and started operations in August 2007. The vessel specifications are similar to those of *MV Siem Sasha*. After initial work in the North Sea, this vessel was mobilised for Gulf of Mexico commitments at the year end.



EMGS has worked for all principal categories of client and in all of the major hydrocarbon basins around the world. More than 40 companies have worked with EMGS, including Apache, Anadarko, BP, ConocoPhillips, CMI, Devon, DNO, Dong, Eni, ExxonMobil, Gazde-France, GESeis, StatoilHydro, Lundin, ONGC, Petronas, Petrobras, PEMEX, RWE Dea, Shell and Woodside.

EMGS's clients have the advantage of access to a comprehensive EM-surveying service. This includes feasibility studies, design, data acquisition, processing and modelling, imaging, data integration and interpretation. Each of these elements can be performed as a stand-alone service, although the Company's strength lies in its ability to undertake the whole process as an integrated package. The EMGS EM-surveying fleet now comprises five vessels, all operating to the highest safety and environmental standards.

PRODUCT AND SERVICE OFFERINGS

Overview

EMGS's products and services are aimed at improving exploration efficiency and performance, while reducing risk and finding costs for our clients. We do this by revealing specific information about the subsurface, which is related to the presence of hydrocarbons.

The value of EM-imaging technology as an effective exploration tool stems from its ability to measure remotely subsurface resistivity, an electrical property that is a long established standard indicator of hydrocarbons for the oil and gas industry.

When integrated with traditional exploration techniques, our products and services improve clients' understanding of the subsurface, accelerate the exploration process and help them make better exploration decisions.

EMGS provides the industry's most advanced and comprehensive range of EMimaging products and services, which is

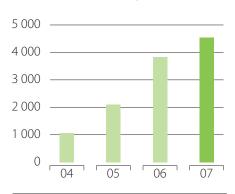
underpinned by highly qualified people and state-of-the-art processes and technology. Significantly, EMGS's services extend from feasibility planning through survey design, data acquisition, processing and modelling, imaging and data integration to interpretation. We offer a complete end-to-end process. In addition, EMGS understands the importance of integrating EM measurements with other forms of data and has developed a variety of effective tools which facilitate the easy integration of its outputs with other geophysical and geological information, which leads to faster and more accurate decisions.

EMGS's products and services can be applied throughout the exploration process, from pre-licence investigations of block prospectivity, through prospect generation and delivery, discovery, to prospect and field appraisal. EM measurements are also relevant during the development and production phases and can be used for life-of-field applications, informing field-development programmes.

EMGS's products and services can be applied throughout the exploration process, from pre-licence investigations of block prospectivity, through prospect generation and delivery, discovery, to prospect and field appraisal. 🛛 🔵

NUMBER OF RECEIVER DROPS

Annual number of reciever drops 2004-2007





In addition to the advanced tools and technology, experience is a critical factor in using EM-surveying methods to inform exploration decisions. Understanding the strengths and weaknesses of geophysical measurements and how they respond in different geological settings is crucial for extracting the maximum value from EM-surveying and avoiding potential pitfalls. Since commercialising the first application of EM-surveying technology (seabed logging) for the detection of hydrocarbons in 2002, EMGS has performed over 300 surveys for more than 40 leading energy companies in most of the world's offshore hydrocarbon provinces. This experience enables our team of geoscience experts to take an informed and robust approach to applying and understanding the technology, the measurement physics, and the results. This knowledge is leveraged through the use of advanced imaging, interpretation and integration tools that enable EM results to be woven seamlessly and confidently into our clients' workflow and decision processes.

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The product and service portfolio comprises three distinct offerings:

- Prospect finding
- Prospect testing
- Prospect appraisal

Prospect finding

EMGS's prospect finding group of products and services, also known as "scanning", is aimed at the rapid identification of leads and prospects over large areas, regardless of their seismic expression. This is reinventing how operators search for hydrocarbons.

Unlike traditional techniques, which rely mainly on seismic surveys to indicate potential reservoir structures, EM scanning technology searches for electrical properties (resistivity) that can indicate the location of hydrocarbons directly. Scanning with EM techniques offers the additional benefit of revealing potential leads such as stratigraphic traps, which are not easily visible on seismic maps.

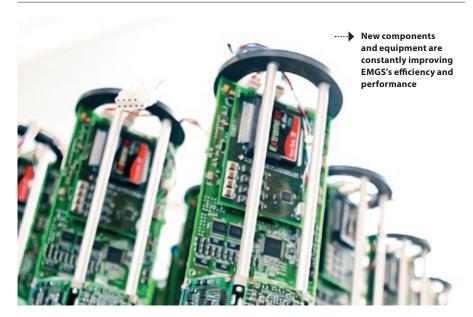
The service is ideally performed early in the exploration cycle at the pre- and postlicensing stages, but can also be deployed in mature areas, late in the field's life, to search for potential missed opportunities. When deployed before or during a licensing round, prospect finding products enable clients to assess quickly the prospectivity of licence blocks more accurately than previously possible, before bidding or committing significant resources to new ventures. This can give our clients a great competitive advantage and a head start in the event of a successful bid. If a client is already exploring in a new licence block, then prospect finding will enable resources such as 3D seismic and higher density EM surveys to be targeted more effectively in the places

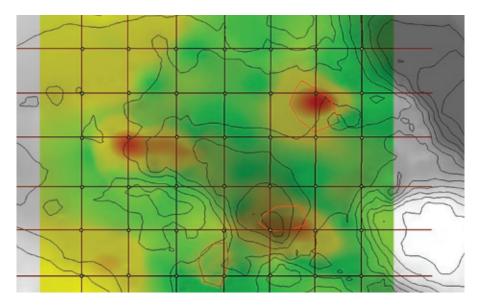
where there is a higher chance of finding hydrocarbons. The overall effect is reduced exploration risk, accelerated results and higher performance.

Technically, the prospect finding service locates resistive geological structures in the subsurface and these can be either non-hydrocarbon related, such as salt or volcanic rock, or indicative of hydrocarbon deposits. Integrating this information with existing knowledge and other geophysical data helps to identify commercial prospects more quickly and comprehensively than using traditional methods alone.

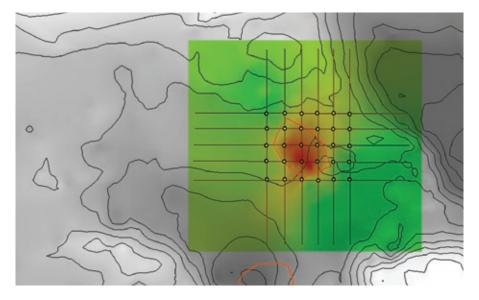
A fundamental logic of this new approach to exploration is that prospective areas are typically more resistive than non-prospective areas. Whilst not all "geological resistors" are hydrocarbon related, all comProspect finding is aimed at the rapid identification of leads and prospects over large areas, regardless of their seismic expression.

mercial hydrocarbon accumulations are geological resistors, so if large hydrocarbon deposits are present in the scanned area, and they exist within the measurement range of the technology, then they will be detected and become "EM-leads". Focusing further exploration efforts on resistive areas rather than non-resistive areas is therefore





..... This synthetic example map shows three red areas that indicate zones of high resistivity in the subsurface ("EM-leads"), revealing locations with higher prospectivity than the surrounding green areas. Focusing further exploration efforts in these three zones is more likely to provide a return on investment than in the green areas.



····· Prospect appraisal data are acquired using a high-density grid of EM receivers, typically spaced 0.5-1 km apart above the target prospect.

expected to accelerate the delivery of drillable prospects and yield better exploration results overall.

Prospect finding delivers several benefits in the early exploration phase which enable more effective basin entry and pre-licensing decisions, through to the rapid generation of prospect portfolios. Information derived from EM scanning is displayed as anomaly maps and volumes, and is easily integrated with seismic information and geological models. Combining EM-surveying techniques with conventional methods enables a faster and more accurate assessment of new blocks, and better exploration decisions, thereby improving overall exploration efficiency and performance - faster.

The benefits of prospect finding using EMsurveying technology can be summarised as follows:

- Rapid lead and prospect generation
- -----Accelerated prospect delivery
- -----Rapid and cost-effective assessment of prospectivity
- Potential to reveal opportunities not seen by seismic surveys
- Reduced finding cost per barrel
- -----Better informed licensing decisions
- More effective use of other exploration resources
- Possible "last look" before relinquishing a licence or abandoning an asset
- Reduced environmental impact of exploration activities.

Prospect testing

Prospect testing is a group of products and services that can be applied to the process of establishing the risk of drilling known prospects: the probability of finding hydrocarbons before drilling.

Prospects which test favourably are more likely to contain hydrocarbons and can be upgraded for exploration drilling. Those that test less favourably can be downgraded or abandoned. By focusing drilling resources on more favourable prospects, operators reduce the risk of failure (dry wells) and at the same time improve their discovery to dry well ratio. This is a material benefit at a time when offshore prospects that are not EMtested yield an average historical discovery ratio of only 25%. Achieving better overall results with the same or fewer resources, and in less time, is a key benefit of the prospect testing service.

Prospect testing can also be used in the estimation of potential hydrocarbon volumes and therefore helps to assess the economic viability of a prospect prior to drilling. Extending the survey zone beyond the edge of the prospect can help to confirm the lateral extent of the reservoir, and images of resistivity information presented as vertical sections through the earth reveal the burial depth of the reservoir. This information can be combined with other geophysical data to inform potential hydrocarbon volume estimations and help in the selection of drillable prospects. Whilst prospect testing can

Achieving better overall results with the same or fewer resources, and in less time, is a key benefit of the prospect testing service. inform early volume estimates, the prospect appraisal service is better suited to that particular application.

An additional benefit of using this service is that a portfolio of high-graded EM-tested prospects will be of higher value than those that have been de-risked using traditional methods alone. A higher value portfolio can of course be traded or drilled with higher returns at the discretion of the operator.

The benefits of EM prospect testing are:

- Increased discovery rate
- Reduced dry wells
- Reduced finding costs per barrel of oil equivalent
- Accelerated prospect delivery and time to discovery
- Increased portfolio value
- Reduced environmental impact of exploration activities

Prospect appraisal

Once an exploration well encounters hydrocarbons, a key objective is to assess the potential of the discovery and establish whether the reserves are commercial. Specifically, appraisal activities are targeted at reducing the range of uncertainty in the volumes of hydrocarbons in place, where the hydrocarbons are, and the prediction of the reservoir's performance during production. EMGS's prospect appraisal products and services are primarily designed to enable a faster, more accurate and cost-effective assessment of the volume, saturation and distribution of hydrocarbons within the prospect.

A key feature of EMGS's prospect appraisal offering is the ability to produce accurate 3D images which reveal subsurface resistivity distribution throughout the prospect. This Our prospect appraisal services enable a faster, more accurate and cost-effective assessment of the volume, saturation and distribution of hydrocarbons within the prospect.

vital information is intimately associated with the distribution and saturation of hydrocarbons, and when integrated with other information such as 3D seismic can significantly improve the speed and accuracy of prospect evaluation.

It is expected that the service will also enable a reduction in the number of appraisal wells in certain prospects, thereby leading to significant cost savings and adding to the overall value proposition of improved efficiency, lower costs and reduced economic risk.

The benefits of EM prospect appraisal include:

- Faster and more accurate assessment of hydrocarbon volumes and distribution
- Reduced finding and development costs per barrel of oil equivalent
- Reduced number of appraisal wells, accelerated time to development and first oil
- Reduced economic risk.

INNOVATION AND IP/PATENTS

EMGS was founded on, and remains committed to, innovation. Since EMGS created the EM-imaging industry in 2002 with the commercialisation of seabed logging, it has continued to maintain its IP position with strong patent protections in place.

EMGS has a dedicated research and development group that is continuously improving the design of its survey equipment and processing and modelling capabilities.

2007 saw a number of specific advances in EMGS's technology:

Virgil Kauffman Gold Medal

EMGS has won a number of awards in recognition of its technology during its existence. In September 2007, Terje Eidesmo and Svein Ellingsrud received the prestigious Virgil Kauffman Gold Medal for initiating the first substantial test of controlled-source electromagnetics (CSEM) for direct hydrocarbon indication

KMS Technologies

In November 2007, EMGS acquired the exclusive worldwide rights to patented EM technology developed by KMS Technologies (Houston). This broadens EMGS's ability to support oil and gas exploration companies searching for new reserves in shallow waters.

To acquire these proprietary rights EMGS teamed with Reservoir Exploration Technology ASA (RXT) jointly to acquire KMS Technologies in a 50/50 joint venture.

The KMS technology offers an alternative to EMGS's proprietary methodologies in shallow water applications, significantly broadening the Company's product offering. Additionally, KMS staff includes industry-recognised geoscience experts, inventors and technical award winners. Over the past eight years KMS has patented, engineered and field tested a diverse range of EM technologies for borehole, marine and permanent monitoring applications, and it is currently commercialising these technologies.

IP/Patents

EMGS takes a responsible and robust approach to protecting its intellectual property rights (IPR). It has patents and patent applications in a large number of jurisdictions around the world covering many different aspects the Company's technology, from the general method of operation to data processing and interpretation. Developments are assessed internally and, if appropriate, patent applications are filed.

EMGS's current portfolio includes over 180 cases in 19 patent families, with over 70 patents granted or applications accepted for grant. The portfolio includes cases in North and South America, Africa, Europe, Asia and Australasia. Some of the patents granted are being challenged by third parties, and have so far been defended successfully by EMGS. It is in the nature of a patent portfolio that some patents are being surrendered as new, more precise and specific patents are granted which cover the core areas in a better way. EMGS has therefore revoked / surrendered a number of patents over time and expects to continue to do so.

EMGS continually protects its IPR position in the interest of its shareholders and other stakeholders. Its IPR position consists of three parts:

- ----> Equipment
- ----> Method
- ----> Analysis

EMGS's patent portfolio relates primarily to the Method part, whereas the other parts are largely trade secrets.

Elements from all parts of EMGS's IPR portfolio are required in order to make an EMGS product. In practice, this means that EMGS's patents represent only one element of our IP picture. Thus, it is not possible to make an EMGS product on the basis of the patent only.

Some of our patents have been successfully defended against challenges from companies that realise the importance of EM-imaging technology and want to catch up.

180 portfolio cases

EMGS's current portfolio includes over 180 cases in 19 patent families, with over 70 patents granted or applications accepted for grant.

Expanded shallow water capabilities

EMGS has added KMS Technologies' patented EM technology to its own shallow-water surveying methods, increasing our ability to help search for new reserves in shallow waters. 23

EMGS technology

TECHNOLOGY UPTAKE/MARKET ACCEPTANCE

EMGS's rapidly expanding team is dedicated to helping clients improve their exploration performance and increase the likelihood of finding offshore hydrocarbons.

A new technology

Any new technology, in any industry sector – especially if it is disruptive in nature – must necessarily struggle through a number of obstacles before becoming an industry standard. This is no less true of EM technology than any other.

Issues which affect the adoption of EM technology start with awareness of the technology itself, its potential applications and its capabilities. However, as with other breakthrough technologies, EM-imaging must also often compete with functionally inferior existing technologies that are nevertheless tried and tested and therefore enjoy significant market share.

EM has made particularly impressive progress in all these respects since it created the EM-imaging industry in 2002 with the commercialisation of seabed logging.

Awareness of EM

Full awareness of EM technology within the global oil and gas industry has now been achieved. This is a significant achievement. Oil and gas companies, their advisers and third party commentators now universally cite EM imaging as being a valid technology which will only grow in significance.

"These days CSEM no longer has to prove itself. EMGS alone has carried out well over 300 survey projects for approaching 40 different companies, from the majors and national oil companies to small independents."

Asian Oil & Gas, March/April 2007

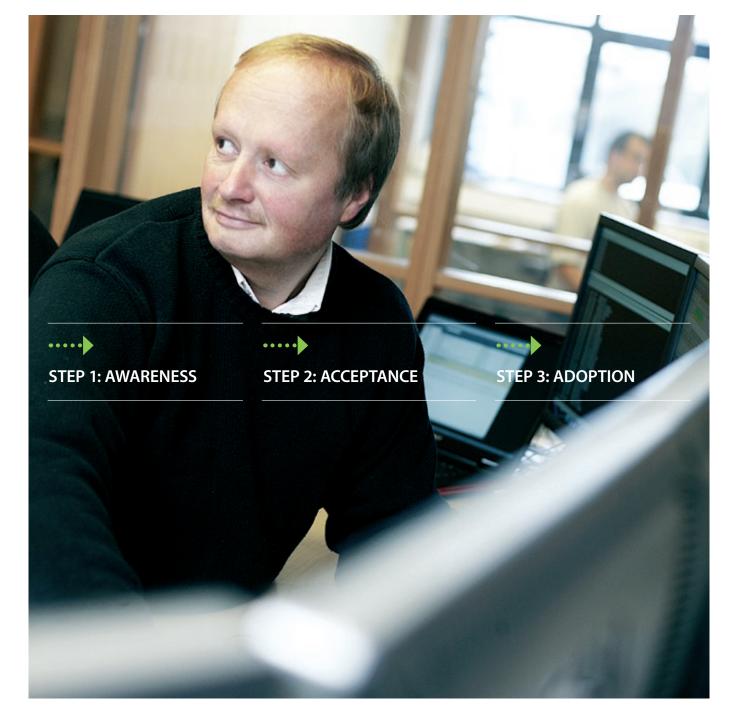
Oil and gas industry acceptance

The level of acceptance of the technology has also risen strongly. EMGS's clients now cover all categories of operator, with a significant and increasing amount of repeat business. The average value of EMGS's contracts is also rising. Increasingly, oil and gas companies of all sizes are realising that EM-imaging technology can significantly increase their ability to detect subsea hydrocarbons.

The adoption process

The major challenge now facing EMGS is that of adoption, with the ultimate objective that EM-imaging becomes an established and respected hydrocarbon detection tool. To this end, EMGS has put in place a number of measures designed to stimulate and foster adoption of EM technology within the oil and gas industry.

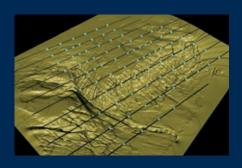
EMGS constantly works to highlight success stories within the industry, citing client feedback whenever possible (many clients require confidentiality). The Company also takes time to help existing and potential clients understand the process whereby EMimaging data is analysed to provide a high value evaluation. EMGS also helps clients to integrate EM and other data.



Introduction EMGS technology Customer cases

Scanning success in a challenging environment, Australia





Receiver grid, source tow lines and bathymetry.

An EM-scanning survey was performed to provide a coarse 3D view of a 1650-km² area. A new potential deepwater lead was identified from the scanning data. Apache is exploring a basin off the Australian coast and wanted to grade prospects identified from seismic data in the deep frontier part of the basin so that it could focus its exploration resources.

Target-orientated EM surveys were considered, but Apache also wanted to know more about the subsurface resistivity of the entire frontier area and to identify new leads.

ACCOUNTING FOR COMPLEX BATHYMETRY AND REGIONAL RESISTIVITY

An EM scanning survey with 84 receivers deployed in a $4- \times 4$ -km grid was performed to provide a coarse 3D view of a 1650-km² area. The receiver spacing was reduced to 2 km over the prospects to combine the scanning and target-orientated approaches. Three receiver lines were active for each line towed, which enabled inline and azimuth data to be acquired, thereby increasing the survey's coverage.

In the basin, the water depth varies from 100 to over 2500 m, and the seabed is rough with deep canyons. The area also has a resistive carbonate-dominated overburden of varying thickness. The background resistivity changes associated with these conditions presented operational and data-processing challenges, which initially prevented identification of potential hydrocarbon-related anomalies from scanning data.

To overcome the challenges that the bathymetry and overburden presented, 1D inversions constrained by information from well logs were performed at several locations across the survey area. Instead of referencing the scanning data to a representative receiver, the 1D inversion results were used to create a reference model that reflected the bathymetry-related resistivity changes

and the variable overburden thickness (the latter derived from seismic data). Synthetic scanning responses were generated by 3D forward modelling using this reference model, and these results were used to normalise the measured scanning data.

Reference-model normalisation revealed interesting resistivity anomalies in the scanning data, including some that may relate to hydrocarbon accumulations. Two large anomalies had characteristics suggesting they were related to lithological variations rather than to the presence hydrocarbon-bearing formations. This interpretation was supported by the correspondence of these anomalies to areas of high seismic P-wave impedance.

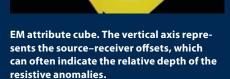
Other potential hydrocarbon-related anomalies were seen on the scanning images. One corresponded to a producing field, which confirmed the method's validity; others agreed with existing seismic prospects. Another seismic prospect did not have an associated scanning anomaly, so exploration resources can now be focused on the other, more promising, prospects. A new potential deepwater lead was identified from the scanning data.

BUILDING CONFIDENCE

Identifying a producing field on the edge of the more mature part of the basin under challenging conditions has strengthened the confidence in the existing prospects where the EM and seismic interpretations agree, and a potential new prospect has been identified.

Scanning is frequently a first-look method and does not rely on detailed knowledge of the survey area. However, this example highlights the benefits of working with all the available information to achieve the best understanding of the subsurface.

Apache Corporation is an independent energy company that explores for, develops and produces natural gas, crude oil and





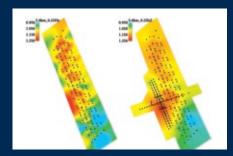


natural gas liquids.

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Scanning informs bidding decisions





The normalised, up-down separated EM magnitude response at a 5-km offset from the initial scanning survey (left) and with the additional three target-orientated lines (right). The anomaly seen on the western edge of the initial survey was better defined on the second image.

2007 award of predefined areas, Norway

BLOCK PROSPECTIVITY

Aker Exploration ASA wanted to assess the prospectivity of licences on the Norwegian continental shelf before the 2007 award of predefined areas (APA). The regional geological trends were known, but the company wanted more information to assist in its bidding decision making. The APA deadline was looming, leaving no time to process and interpret commercially available seismic data.

RAPID LEAD GENERATION

An EM scanning survey was performed over a large area using receivers deployed 3 km apart in a staggered grid. The water depth was 150 m, and up-down separation was used to successfully reduce the influence of the airwave (EM energy travelling up and along the air-water interface, rather than down and through the subsurface). The use of wide-azimuth data from offline receivers, as well as data from inline receivers, improved the representation of the survey area.

The initial scanning survey detected the edge of a large anomaly. Three additional survey lines with 1-km receiver spacing were acquired while the vessel was still in the area. These denser lines improved the anomaly's lateral definition and made inversion possible. Aker needed information on which to base its bidding decisions within three weeks of the survey. Common midpoint (CMP) inversion, a quick and robust method, was used to provide resistivity sections in just a few days. A resistivity increase at about 1 km deep corresponded to the mapped anomaly. The results were available to inform the company's bidding decisions, with the detailed technical reports following soon after. Additional advanced processing and modelling were then used to create deliverables such as 3D anomaly cubes.

INFORMED BIDDING

Aker used EM scanning data in opting to bid for the area with the positive EM response and in deciding not to bid for those areas lacking a response.

Aker acquired eight scanning surveys and two infill surveys during 2007, and it is one of many companies successfully using scanning as an exploration decision-making tool to inform bidding strategies and to identify and rank prospects.

Early identification of leads using scanning is helping Aker to make good use of its resources and to plan the acquisition of infill EM and seismic data. This will ultimately reduce the time from data acquisition to first oil.

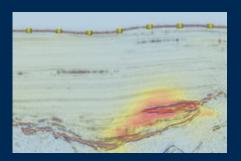
X Aker Exploration

Aker Exploration will explore for oil and gas on the Norwegian continental shelf (NCS). The business model is based on the concept of using rig availability to farm into already awarded licenses and to apply for new acreage through licensing rounds.

Aker acquired eight scanning surveys and two infill surveys during 2007. It is one of many companies successfully using scanning as an exploration decisionmaking tool.

Comprehensive EM workflow contributes to gas discovery, Borneo, Malaysia





CMP inversion of the EM data showed an anomaly that is closely aligned with the seismic prospect.

Murphy Sabah Oil Co. Ltd wanted to evaluate a prospect identified from seismic data and also to investigate some poorly defined leads. The company needed to be confident that it would drill its exploration well in the best place.

A COMPREHENSIVE WORKFLOW

Three EM survey lines were acquired in October/November 2006, and a processing and modelling methodology was employed that ensured that Murphy got the most out of its survey.

Attribute analysis is a quick way of examining EM data, often relative to a reference point, and such an early interpretation helps to inform the post-survey modelling process. CMP–offset plots for different frequencies quickly indicated the possible presence of two anomalies at different depths.

Post-survey modelling starts with the production of a background resistivity model usually based on seismic horizons and resistivity layers from 1D inversion of EM data at different points. Synthetic data are generated from the resistivity model and compared with the measured EM data. Initially, there is a large difference between the datasets. A resistor based on the attribute analysis and seismic interpretation is included in the model, and the comparison is made again. The size, depth and resistivity of the resistor are varied in an automatic iterative process that finds the parameters which exhibit the smallest error.

Once one resistor had been placed in the model such that it produced a synthetic EM response that closely matched the measured data, a second resistor was added to account for the remaining error. **Inversion** of the EM data was used to provide imaging with true depths. CMP inversion is a quick and robust method that is based on a plane-layer assumption. Preliminary CMP inversion results can be available within 1–2 hours of final data acquisition, while the vessel is still in the survey area and able to acquire additional data if required. CMP inversion of the EM data showed an anomaly that closely aligned with the seismic prospect.

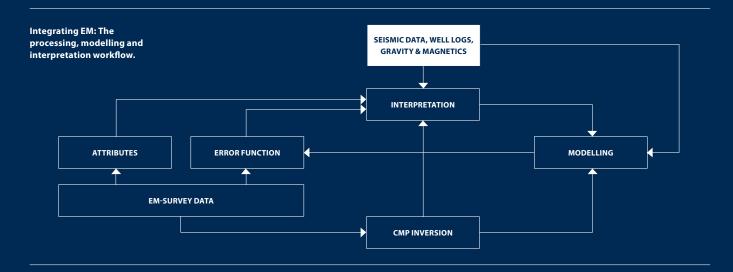
DRILLING WITH CONFIDENCE

Murphy integrated EM imaging into its workflow to de-risk its drilling in offshore Borneo. The company had the confidence needed to drill the prospect, and made a significant gas discovery.

MURPHY OIL CORPORATION

Murphy Exploration & Production Company, (Murphy EXPRO) is engaged worldwide in crude oil and natural gas exploration and production. Murphy EXPRO is headquartered in Houston, Texas. In 1999, Murphy opened an office in Kuala Lumpur to oversee its E&P activities in Malaysia.

Murphy integrated EM imaging into its workflow, giving it the confidence to drill the prospect, which resulted in a significant gas discovery.



FROM THE BOARD OF DIRECTORS

EMGS provides the most advanced and diverse portfolio of EM technology services including data acquisition, imaging, interpretation and integration systems to assist its clients in their search for hydrocarbons by reducing the risk associated with offshore exploration.

OVERVIEW

Electromagnetic Geoservices ASA ("EMGS" or the "Company") and its subsidiaries (together the "Group") is the market leader in deep electromagnetic (EM) imaging. The Company founders launched the EM imaging industry in 2002 with the commercialisation of seabed logging. This proven exploration technology has the capability of detecting hydrocarbon reservoirs in the subsurface which when combined with other subsurface techniques help to significantly constrain risk and enhance exploration efficiency. The goal of EMGS is to provide the most advanced and diverse portfolio of EM technology services, including data acquisition, imaging, interpretations and integration systems. EMGS delivers a clear and unique benefit to our clients in their search for and exploration of hydrocarbons.

EMGS has conducted more than 300 commercial surveys for many of the world's leading oil and gas companies. Activities are coordinated from its headquarters in Trondheim, with Business Units in Houston, USA, Stavanger, Norway and Kuala Lumpur, Malaysia. The Group also has offices in Oslo, Paris, London, Rio de Janeiro, Perth and Mumbai. EM imaging surveys have taken place under a variety of operating conditions and in virtually every major basin around the world, including the Gulf of Mexico, South America, Northern Europe, Africa and Asia. EMGS offers a complete and proprietary EM solution package, including feasibility studies and related 1-D, 2-D and 3-D modelling, survey planning, data acquisition, data processing, imaging and interpretation services. The Company currently uses five chartered survey vessels, each fitted with

custom-designed containerised equipment which can be efficiently transported to any suitable and available vessel, enabling EMGS to deliver cost-effective and operationally efficient survey solutions worldwide.

The EM imaging technology which EMGS utilises is proprietary. In addition, the Company also maintains proprietary rights over the equipment, technology and software it uses to conduct its operations. This technology, equipment and software, are unique and together they permit EMGS to provide superior end-to-end service for clients, penetrate the EM market and permit the further development of its EM imaging technology and applications. This position has been achieved as a result of EMGS's intensive research and development activity, which the Company intends to maintain and enhance.

For the year ended 31 December 2007, the Group generated revenues of approximately United States dollars ("USD") 140.3 million, operating loss of approximately USD 25.6 million and negative EBITDA of approximately USD 12.1 million.

Although EMGS has experienced a high growth in demand, the Company intends to create awareness, acceptance and adoption of the EM technology. The Company is committed to strengthen its organisation as the adoption of the EM technology continues to build. The organisation must be able to deliver improved efficiency and attract and retain employees with international skills.

PUBLIC LISTING

The Company's stock was listed on the Oslo Stock Exchange on 30 March 2007. At the

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same time as the listing the Company carried out an initial public offering ("IPO") with a capital increase of 5.5 million new shares at USD 22.14 (NOK 135) per share, providing the Company with additional equity capital of USD 113.3 million (after expenses).

CORPORATE GOVERNANCE

EMGS is committed to maintaining high standards of corporate governance. We believe that effective corporate governance is essential to the well-being of the Company and establishes the framework by which we conduct ourselves in delivering services to our clients and value to our shareholders.

EMGS is registered in Norway as a public limited liability company and our governance model is based on Norwegian corporate law and the Norwegian Code of Practice for Corporate Governance, as applicable at all times.

RESEARCH AND DEVELOPMENT

Research and Development ("R&D") is part of the foundation for the development of EMGS. We are committed to continue our focus on R&D to improve our products and develop new products in order to provide our customers with further improved results. We have a team of 43 employees solely committed to R&D. In 2007, we incurred R&D expenses amounting to USD 6.4 million compared to USD 5.1 million in 2006. These expenses are mainly employee expenses in the R&D department.

GOING CONCERN

In accordance with the Norwegian Accounting Act § 3-3a we confirm that the Group's financial statements have been prepared on a 'going concern' basis. The Board confirms that this basis, which takes into account the income forecasts for the year 2008, and the Group's long term strategic forecasts, is valid. The Group's financial position is sound.

FACTORS AFFECTING RESULTS OF OPERATIONS

The Group's operational results depend on a number of factors, including demand for its EM imaging services, contract economics and utilisation, the charter terms of its vessel fleet, data acquisition revenues and data processing revenues.

Revenues

The majority of the contracts entered into by EMGS in the last two fiscal years have been for a total service solution. This is in part driven by the increasing level of repeat business from EMGS's clients.

Fleet Growth and Utilisation

Fleet Growth. EMGS currently charters five vessels with which it performs EM imaging surveys. The first vessel was chartered in 2003. As part of its fleet management, EMGS has entered into time charter contracts for two new purpose-built vessels with scheduled delivery dates in the second half of 2008 and the first half of 2009.

The growth of the Group's fleet has been, and is expected to remain, a key driver in EMGS's capacity to increase revenues.

Vessel Utilisation (defined as percentage of total time in active service; this equates to total time less vessel related downtime less equipment related downtime less weather related downtime). EMGS's ability

Bjarte Bruheim Chairman of the Board

Bjarte Bruheim, Chairman, has more than 25 years of experience in the seismic industry, having worked for Geo (now WesternGeco) and subsequently in Petroleum Geoservices, where he was President and COO. Bjarte brings with him worldwide business and operational experience in addition to his experience as a board member, chairman and president of various US and Norwegian public companies.

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Jens Ensted Danielsen Board member

Jens Ensted Danielsen.is currently Vice President for geology and geophysics at EMGS. He has previously specialised in geophysical, electromagnetic methods at Aarhus University and from 2004 at Lund University.

Jeffrey Harris Board member

Jeffrey Harris is a Managing Director of Warburg Pincus and oversees the firm's energy investment activity. His investment activities have covered a wide variety of geographies, enterprises (from start-ups to buyouts) and industries, including information technology, energy and industrial products. Jeffrey serves on a number of boards, including Bill Barrett Corp., Competitive Power Ventures Inc., Knoll, Kosmos Energy LLC, Spectraseis AG and Nuance Communications, Inc.. to optimise the performance of its vessels - through maximising commercial utilisation and minimising unpaid steaming and unpaid standby time - are key factors in the Group's operating performance. Technical downtime, with respect to both the vessels and the EM equipment thereon, as well as steaming time between surveys and unpaid standby time, negatively impact the Group's operating results. During 2005 and 2006, EMGS experienced a significant reduction in unpaid steaming time and unpaid standby time. Vessel utilisation declined somewhat in 2007 to a large extent due to the larger geographical spread of projects, some technical challenges and specific contract delays in the fourth quarter. EMGS is working actively to increase Vessel Utilisation and is taking a number of steps, technical and organisational, to increase Vessel Utilisation.

Seasonality

The Group generally experiences lower levels of revenues in the first quarter of each year compared to later fiscal quarters, partly due to the effects of weather conditions in the Northern Hemisphere. This generally prevents the full operation of survey crews and vessels, resulting in lost time due to vessels' relocation. In addition, our experience suggests that many oil companies' budget cycles leads to reduced spending in the first quarter of the year.

The Group's results of operations tend to fluctuate from quarter to quarter due to the spending patterns and capital expenditure budgeting processes of the oil and gas companies which form its client base. This trend has historically resulted in a substantial number of orders being received by the Company during its first quarter and the early part of its second quarter, such orders being subsequently recorded as revenue in later quarters of each year. In 2007 the revenue in the second quarter was good and the third quarter was a record high, while the revenue in the fourth quarter was significantly lower than the previous two quarters as several projects were delayed as a result of clients' internal processes and delays by local governments to issue the required permits. The redeployment of vessels around the world, weather conditions generally and the outcomes of licensing rounds also cause results of operations to fluctuate from quarter to quarter.

Foreign Currency Effects

While the Group conducts operations in several countries around the world, nearly all of its business is currently transacted through EMGS, the parent company, whose functional currency is USD. EMGS principally invoices for services it provides in USD or a currency pegged to the USD. Occasionally it invoices in Norwegian kroner ("NOK").

Currency transaction exposure occurs to some extent in the ordinary course of business and when the relevant exchange rates move between the date of a transaction and the date of final payment for the transaction. The Group records such gains or losses in the Financial Income / Expense line of its consolidated income statement.

RESULTS OF OPERATIONS

Set out below are the Group's results for the year ended 31 December 2007. The Group prepares its accounts in accordance with International Financial Reporting Standards ("IFRS").

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Operating Revenue

Total revenues for the year ended 31 December 2007 were USD 140.3 million compared with USD 117.7 million for the year ended 31 December 2006, an increase of 19% as a result of increased activity.

Total Operating Expenses

Operating expenses increased to USD 165.9 million for the year ended 31 December 2007 compared to USD 104.6 million in 2006. The 59% increase reflects the significant increase in capacity on land and at sea - four vessels were in operation for the full year and a fifth vessel was added in August 2007.

Charter Hire, Fuel and Crew Expenses ("charter costs")

Charter costs increased to USD 93.8 million for the year ended 31 December 2007 from USD 62.7 million in 2006 as a result of four vessels operating for the full 2007 year and five vessels since August 2007. In 2006 the Group operated three vessels for the full year, with an additional vessel added in September 2006.

Employee Expenses

Employee expenses in 2007 amounted to USD 32.9 million, an increase from USD 18.1 million in 2006. The number of employees has increased significantly over the recent years: from 52 as at 31 December 2005 to 154 employees as at 31 December 2006 and 260 as at 31 December 2007. The increase in employee expenses is relatively higher in 2007 compared to 2006, reflecting the increase in the number of employees working for the full year for the Group in 2007.

Depreciation and Amortisation

Depreciation and amortisation rose from USD 7.5 million in 2006 to USD 13.5 million in 2007. This should be compared to the increase in assets from USD 25.3 million as at 31 December 2006 to USD 51.6 million as at 31 December 2007. The increase in depreciation and amortisation is a direct consequence of the increased investment in equipment.

Other Operating Expenses

Other operating expenses amounted to USD 25.7 million in 2007 compared to USD 16.2 million in 2006. The increase can be explained by (i) the increased activity on land and off shore and (ii) a provision of USD 4.7 million to cover potential losses arising from non payment of invoices by three clients.

Financial Income and Expenses

Financial income increased from USD 2.2 million in 2006 to USD 4.6 million in 2007. This is largely due to increased interest income as a result of the Company's higher cash balances following the IPO. Financial expenses were reduced as a result of lower debt. Net financial expense amounted to USD 2.0 million in 2007 compared to USD 32.8 million in 2006. The net financial result is influenced by foreign exchange fluctuations.

LIQUIDITY AND CAPITAL RESOURCES Cash Flow from Operations, Investing and Financing Activities

Net cash generated from the Group's operating activities was negative USD 20.7 million in the year ended 31 December 2007 compared to negative USD 4.0 million in the year ended 31 December 2006.

Grethe Høiland Board member

Grethe Høiland is currently Managing Director of Lyse (Nett) AS. She has broad experience from senior executive posts in the energy sector, including in Statoil, and has served on a number of boards.

David Krieger Board member

David Krieger is currently a Managing Director with Warburg Pincus and focuses on the firm's investment activities in the energy sector. Prior to joining the firm, he was a consultant at McKinsey & Company. Mr. Krieger serves on the board of directors of Canbriam Energy, Inc., Fairfield Energy Ltd., Kosmos Energy LLC and MEG Energy Corp.

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Trine Sæther Romuld Board member

Trine Sæther Romuld is currently CFO at Aker Drilling. She has extensive operational, financial and management experience, including senior positions at Ernst & Young AS and Arthur Andersen & Co., Transocean Inc. and Marine Harvest ASA. Trine is also a board member of DnBNOR.



Bjørn Rosvoll is currently Vice president for Global Sales in EMGS. Bjørn previously worked for PM International and Q-free group. in Trondheim, where he held various management positions. Bjørn joined EMGS in January 2004, and became vice president, global sales in February 2008. Net cash applied in investing activities for the year ended 31 December 2007 was USD 51.0 million. The principal components of this expenditure were USD 13.2 million relating to the joint venture in KMS Technology (see 'Joint Venture' below) and USD 35.9 million relating to investment in equipment for the Group's operations.

Net cash provided by financing activities for the year ended 31 December 2007 totalled USD 91.9 million. This reflects the Company's issue of equity capital amounting to USD 115.9 million, of which USD 113.3 million were raised under the IPO.

Liquidity Requirements and Financing Facilities

The Group's liquidity needs fluctuate from quarter to quarter depending, principally, on seasonal trends (more fully discussed above under "Seasonality") and the Group's need to commission additional equipment, the timing of which is typically aligned with new vessel delivery.

The Company currently has a credit facility which provides a total borrowing facility of up to USD 20 million, comprising an overdraft facility and a bank guarantee facility. The overall facility is secured by first priority security over the Group's accounts receivable, a priority pledge over EMGS's bank accounts and a negative pledge over all of EMGS's rights, licences, patents and similar rights. Any NOK borrowings under this arrangement bear interest at 7 days' NIBOR plus a margin of 1% per annum. As at 31 December 2007, the Group's aggregate indebtedness under the facility was USD 12.1 million (NOK 65.2 million). The USD 20 million Notes issued by the Company in November 2006 were repaid in 2007 out of the proceeds of the IPO. The cost of repaying the Notes amounted to USD 0.8 million.

Joint Venture

EMGS acquired 50% of the shares in KMS Technology ("KMS") in November 2007 through a joint venture with Reservoir Exploration Technology ASA ("RXT"), which holds the remaining 50% of the KMS shares. The KMS technology offers an alternative to EMGS's proprietary methodologies, significantly broadening EMGS's product offering to oil and gas companies. The investment in KMS is recorded in the annual accounts according to the equity method.

FINANCIAL RISK

The Group is subject to currency transaction exposure when it generates revenues in currencies other than those in which it incurs expenses. The Group incurs approximately half of its expenses in USD, including the majority of its current vessel leases, fuel costs and operational crew costs. Approximately 40 % of its expenses are Norwegian kroner denominated, including the salaries of staff employed in Norway, the lease of one vessel and office rental. The effects of this exposure are recorded in the Financial Income and Expenses line of the Group's consolidated income statement. EMGS aims to hedge non-USD currency transaction risks by seeking to match revenues and costs in the same currency wherever possible. The Company currently has no financial hedging arrangements in place. In circumstances where it cannot effectively match its revenues and costs, the Company may in the future seek to hedge such exposure.

EMGS has some exposure to interest rate risk on interest bearing assets as the return on bank accounts and investments will flucturate with the USD and NOK short term interest rates. Limited exposure arises from the floating rate structure of its credit facility (described above) and from its leasing commitments. Should debt and leasing levels increase going forward, however, must expect an increase in said exposure will take place.

EMGS's sources of liquidity include cash balances, cash flow from operations, its existing bank facility and further debt and equity issues. EMGS's primary sources of funds for its short-term liquidity needs comprise cash flow from operations and borrowings under its existing credit facility, while longer-term sources of funds comprise cash from operations and further debt and equity financings.

EMGS has no significant concentration of credit risk. The majority of the Group's clients are international major, national and independent oil and gas companies, generally with strong credit ratings. However, from time to time the Group provides services to smaller oil and gas companies, and in these cases particular attention is paid to the credit evaluation of the client. In 2007, EMGS experienced three instances of non-payment by clients. The Company is currently in dialogue with these clients to find solutions for the outstanding amounts and has provided USD 4.7 million in this connection.

WORKING ENVIRONMENT AND EMPLOYEES

As at 31 December 2007 the Group had more than 260 employees, 30 of whom are employed at the Group's offices in Houston, Texas, USA, and 20 of whom are employed at the Group's offices in Kuala Lumpur, Malaysia. It is the Board's opinion that the Group's general working environment is good, and it is a key goal for the Group's management team to maintain this status. A second goal is to ensure that the Group's internal educational and training programme "the EMGS School" continues to meet the challenges of training the Group's new employees and provides a beneficial continuing internal educational programme. Since a large number of our employees are involved in offshore operations, a dedicated health, safety and environment ("HSE") training programme has been put in place to ensure the safest possible working environment. EMGS sponsors and promotes various social and sporting activities for Group employees as management firmly believes these to be beneficial in securing a good working environment in the long term. The percentage of absences due to illness in 2007 was 1.8% (1.2% in 2006). One employee was injured during the year, resulting in one day of absence due to this accident.

EQUAL OPPORTUNITIES

EMGS has defined and implemented guidelines to protect against gender discrimination. At the end of 2007, 56 of the Group's 260 employees (or 21.5%) were female (21.4% in 2006). The Group will continue to prioritise the goal of improving the current imbalance by actively following a recruiting strategy to this effect. EMGS recognises that the average compensation for our female employees is lower than for the total workforce. This can, however, be explained by high degree of representation of males at the management level and among technical professionals.

Berit Svendsen Board member

Berit Svendsen is currently is head of Telenor's Nordic fixed line operation. She has gained broad experience from the senior executive posts she has held in Telenor since 1988, including that of chief technical officer, and has served on a number of boards.

Christopher Wright Board member

Christopher Wright is currently executive chairman for Fairfield Energy Ltd and a non-executive director for Kosmos Energy LLC Holdings. Chris has more than 30 years experience from the international oil sector, having worked for Unocal, Lasmo, Mobil and BP. FROM THE BOARD OF DIRECTORS CONT.

EXTERNAL ENVIRONMENT

EMGS's offshore activity may in some instances lead to spills or other unwanted effects upon the environment. The potential effect is however similar in nature to what can be expected in the general maritime transport sector. EMGS reported no spills at sea in 2007.

The Company actively seeks to reduce the risks associated with its operations and has HSE policies and routines in place to meet this goal. Furthermore, efforts towards increasing general awareness of HSE issues across the Group have been implemented. One example of this is the inclusion of HSE targets in the Company's Key Performance Indicators.

ALLOCATION OF NET INCOME

The Board of Directors proposes that the net income of EMGS, the parent company, shall be attributed as follows:

Uncovered loss	NOK	270,017,125
Other equity	NOK	0
Dividend	NOK	0

Net income/(loss) allocated NOK (270,017,125)

The Company does not have distributable equity as at 31December 2007.

Oslo, March 27 2008 Board of directors

Bjarte H. Bruheim Chairman of the Board

Tent Jundan

Berit Svendsen

Jeffrey Harris

DASKY

David B. Krieger

Grethe Høiland

Christopher A. Wright

Trine 5 Romula

blaud

Jens E. Danielsen

Hon Ravel

CORPORATE GOVERNANCE

The Board remains committed to ensuring high standards of corporate governance are maintained throughout the Company. The main corporate governance objective of Electromagnetic Geoservices ASA ("EMGS" or the "Company") is to have systems for communication, monitoring, responsibility and incentives that create the greatest value over time for shareholders, clients and employees. The objective of EMGS is to comply with all relevant laws and regulations affecting the Company and its business activities, as well as the Norwegian Code of Practice for Corporate Governance ("Code of Practice"). The Company's board of directors has adopted the Code of Practice dated 28 November 2006 and intends to adopt the Code of Practice of 4 December 2007 in the course of 2008. The Company may deviate from the principles of the Code of Practice if required for special purposes. In the following it is set out how the Code of Practice is accommodated through the financial year 2007 for each section. Any deviations from the Code of Practice are addressed in relation to the relevant section

1. Corporate values and ethical guidelines

The Company has established a Code of Ethics and Conduct. Corporate Governance is in focus at all levels of the organisation, and is reflected in EMGS's corporate documents, its articles of association and its business strategy.

2. Business

EMGS is the market leader in electromagnetic (EM) imaging. Pursuant to the Company's articles of association, the Company's purpose is:

"The Company's activity is to engage, by itself or through proprietary interests in other companies, in the prospecting for hydrocarbon deposits in connection with the exploration, development and production of hydrocarbons." The article of purpose shall ensure the shareholder's control with the business and its risk profile without interfering with the roles of the board and the management. A more detailed description of EMGS goals and strategies is presented in the annual report.

3. Equity and dividends

As of 31 of December the Company's equity is deemed to be satisfactory by the board of directors in connection with its objective, strategy and risk profile. The Company's equity position is subject to continuing evaluation to ensure that it is in correspondence with applicable regulations and the articles of association. The Company aims to create value for its shareholder over the long term through the increase of the share price in addition to dividends. At present the Company does not intend to pay dividends.

Board authorisations on share capital increases and acquisition of own shares shall, as a main rule, be restricted to defined purposes and shall be limited in time to no later than the date of the next annual general meeting.

4. Equal treatment of shareholders and transactions with close associates

The EMGS shares are all of the same class and are equal in all respects. Equal treatment of shareholders is a main focus area in EMGS. Pursuant to the Norwegian Public Limited Liability Companies Act, existing shareholders have pre-emption rights in connection with share capital increases, however this right can be waived. Any decision to waive the pre-emption right must be justified by the board of directors. Any transactions the Company carries out in its own shares shall, as a main rule, be carried out on the Oslo Stock Exchange.

CORPORATE GOVERNANCE CONT.

In the event of any material transaction between the Company and shareholders, members of the board of directors, members of the executive management or close associates of any such parties, the board of directors shall, as a main rule, arrange for a valuation to be obtained from an independent third party.

EMGS will implement procedures for the board of directors and the board committees to ensure that any conflict of interest connected to agreements that are entered into by the Company is reported to the board of directors.

5. Freely negotiable shares

The shares in EMGS are freely negotiable and the articles of association do not contain any restrictions on negotiability.

6. General meetings

EMGS encourages all shareholders to participate in general meetings. The board of directors uses their best endeavours in terms of fixing the time for and organising the general meeting to ensure that as many shareholders as possible may exercise their rights by participating in general meetings of the Company, and that general meetings are an effective forum for the views of shareholders and the board of directors.

The notice calling the general meeting with a form for appointing a proxy and sufficiently detailed support information to the general meeting, including proposals for resolutions and comments on matters where no resolution is proposed, is sent to all shareholders with known address no later than two weeks prior to the date of the general meeting. Shareholders that are unable to attend the general meetings may be represented and exercise their voting rights through proxy.

Board representatives shall, if possible, attend the general meeting. The collective board of directors and auditor shall attend the general meeting when the circumstances require it. In any case, the auditor shall be present at the ordinary general meeting. Normally, the Chief Executive Officer and Chief Financial Officer will also be present at the general meeting.

The Code of Practice stipulates that the board of directors should have arrangements to ensure an independent Chairman for the general meeting. The Company's articles of association stipulate that the Chairman of the board should chair the general meeting. The Company will continue to evaluate an amendment to the articles of association in order to possibly comply with the recommendations to have an independent Chairman of the general meeting.

7. Nomination committee

The Code of Practice recommends that a nomination committee is established. On account of the current size of the Company and its ownership structure, EMGS does not have a nomination committee. It is the policy of the board of directors to review periodically the appropriateness of establishing such a committee.

8. Composition and independence of the board of directors

In accordance with the articles of association the board of directors shall consist of 5 to 10 board members. The current composition of the board of directors is set out in

the annual report. Members of the board of directors are elected by the shareholders, and any proposals on such board members are made with the view to ensure that the board of directors can attend to the shareholders common interest, and the Company's need for competence, capacity and diversity. It is taken into consideration when proposing and electing board members that the board shall function well as a collegial body. The Chairman of the board shall be elected by the general meeting. Board members own or are encouraged to own shares in the Company.

The majority of the board members are independent of the Company's executive management, substantial business associations and major shareholders. The Chairman of the board of directors performs services for the Company beyond the work directly related to his directorship, and consequently might not be considered independent of the executive management. The other shareholder elected board members are all independent of the executive management and significant business relations. See the annual report for further information about the members of the board of directors

Two of the shareholders elected board members are employed by, and therefore connected to, the Company's largest shareholder.

The Code of Practice recommends that board members of a company should serve for a period of two years. The board of EMGS does not comply with this recommendation because continuity in the board is believed to be of benefit to the Company. The board undertakes to keep its policy in this respect under review.

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9. The duties of the board of directors

The board of directors is responsible for the Company's business and supervision of the executive management, including the responsibility to implement control systems and to ensure that the Company is operated in accordance with applicable legislation and the Code of Practice. The board of directors annually prepares a plan for its work, focusing on goals, strategy and implementation, in addition to instructions from the board of directors to the executive management.

The board of directors' working methods and interaction is subject to annual revision. In this respect, the board of directors evaluates its effort in relation to corporate governance. The board of directors has not regarded it necessary to engage external consultants to assess the evaluation of its own work.

The board of directors has established and stipulated instructions for an audit committee and a remuneration committee to assist the board of directors. The committees of the Company comprise of board members.

According to the Code of Practice, the board of directors should elect a Deputy Chairman. The Company has not considered it necessary to appoint a Deputy Chairman.

10. Risk management and internal control

The board of directors oversees that the Company has a sound risk management and internal control system that are appropriate in relation to EMGS' activities. The risk management and internal control systems in EMGS are based on the Company's corporate values and ethics guidelines. The board of directors annually reviews the Company's internal controls and the main areas of risks. A description of the Company's internal control and risk assessment systems for financial reporting is included in the annual report. The risk management and internal control systems will be further developed in 2008 to ensure that the systems take into account the growth of the Company.

11. Remuneration to the board of directors

The ordinary general meeting decides the remuneration paid to members of the board of directors annually. The remuneration of the board of directors shall reflect the board's responsibility, expertise, time commitment and complexity of the Company's activities. The Code of Practice recommends that the remuneration of the board of directors should not be linked to the company's performance and, further, that the Company should not grant options to members of its board of directors. EMGS believes that shareholders' return is more likely to be maximised when members of the board of directors are given incentives linked to the Company's share price performance. The Company believes that the shareholders, many of whom are international investors, agree with this approach. The Company has not granted options to members of the board of directors after its shares were listed on the Oslo Stock Exchange.

The Chairman of the board has an agreement with the Company for services performed for the Company beyond the work directly related to his directorship, which has been approved by the general meeting. The remuneration set out in this agreement covers his services related to his directorship and all other services performed for the Company. Except for the Chairman, none of the shareholder elected board members are engaged by the Company apart from the duty as board members.

The members of the board committees receive additional remuneration for their committee work as set out in the notes to the annual report.

See the annual report for further information about the remuneration to the board of directors for 2007.

12. Remuneration of the executive management

The board of directors determines salary and other remuneration systems for key personnel of the management pursuant to the provisions of the Norwegian Public Limited Liability Companies Act. The Chief Executive Officer's employment conditions and remuneration are determined by the board of directors and is presented to the ordinary general meeting. The board of directors carries out a thorough evaluation of salary and other remuneration to the Chief Executive Officer on an annual basis.

The guidelines of the remuneration system for the executive management is determined by the board of directors and is presented to the general meeting through a declaration on principles for management remuneration required by law.

The board of directors' believes that the salary levels of executive management shall be competitive.

13. Information and communications The Company makes public guarterly and annual reports pursuant to the stock exchange regulations. The board of directors presents information to the shareholders and the public in a correct, complete and timely manner. The annual report is sent to the shareholders. The Company's financial calendar is published on EMGS' web page and through the Oslo Stock Exchange's information service.

The board of directors treats all shareholders equal with regards to information from the Company, unless otherwise required on the basis of special considerations. It is considered as material to keep shareholders and investors informed about the Company's progress, economic and financial status.

Open investor presentations are held in connection with the Company's annual and guarterly reports.. Presentation material is made public no later than simultaneously with the commencement of the presentation.

In addition to the dialog between the shareholders in the general meeting, the board of directors aspires to arrange for contact with shareholders other than through general meetings. This takes place through the Chairman of the board, the Chief Executive Officer and/or the Chief Financial Officer and is subject to guidelines laid down by the board of directors.

14. Take-overs

Given the present composition of the Company's shareholders according to the register of shareholders, with one shareholder holding approximately 63% of the issued share capital of the Company, the Company does

not believe it necessary to have a detailed take-over policy. In the event of a take-over, the board of directors will, as a main rule, look to the principles of the Code of Practice and evaluate the measures to be carried out in case of any concrete situation.

15. Auditor

The auditor annually presents a plan covering the main features for carrying out the audit. The auditor participates in meetings of the board of directors that deal with the annual accounts and reviews any material changes in the Company's accounting principles, any other circumstances of importance to estimated accounting figures as well as any disagreement between the auditor and the executive management of the Company.

The auditor annually reviews the Company's internal control procedures together with the board of directors, including identified weaknesses and proposals for improvements. The board of directors holds a meeting with the auditor at least once a year at where neither the Chief Executive Officer nor the Chief Financial Officer are present.

The board of directors has adopted instructions as to the executive management's access to the use of the auditor for services other than auditing The auditor provides an overview of his remuneration divided on fee paid for audit work and any fees paid for other specific assignments, which will be presented in the annual general meeting, in addition to the annual report.

The auditor has given the board of directors a written notification confirming that the requirements for independence are satisfied.

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CONSOLIDATED INCOME STATEMENT

Year ended 31 December

Amounts in USD 1 000	Note	2007	2006	2005
Operating revenue				
Contract sales	19	140 339	117 748	44 045
Total operating revenue		140 339	117 748	44 045
Operating expenses				
Charter hire, fuel and crew expenses	26	93 816	62 744	34 625
Employee expense	20	32 931	18 154	7 977
Depreciation and amortisation	10, 11	13 477	7 510	4 137
Other operating expenses	21	25 685	16 162	10 499
Total operating expenses		165 909	104 570	57 238
Operating profit (loss)		-25 570	13 178	-13 193
Financial income and expenses				
Financial income	23	4 624	2 236	2 141
Change in fair value of conversion rights	14	-	-22 969	-8 961
Financial expenses	23	-6 595	-12 074	-3 052
Net financial expenses		-1 971	-32 807	-9 872
Loss before income tax		- 27 541	-19 629	-23 065
Income tax expense	24	3 384	5 642	195
Loss for the year		-30 925	-25 271	-23 260
Basic loss per share (result for the year/shares) in USD	30	-0.47	-0.62	-0.57
Diluted loss per share (EPS) in USD	30	-0.47	-0.62	-0.57

The notes are an integral part of these consolidated financial statements

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Electromagnetic Geoservices Group

CONSOLIDATED BALANCE SHEET

As at 31 December

Amounts in USD 1 000	Note	2007	2006
ASSETS			
Current assets			
Cash and cash equivalents	6	40 685	20 485
Trade receivables	7	32 838	31 910
Other receivables	8	13 885	3 142
Inventories	9	12 509	5 625
Total current assets		99 917	61 162
Non-current assets			
Intangible assets	10	3 341	2 430
Property, plant and equipment	11	48 303	23 302
Interest in joint ventures	5	13 212	-
Total non-current assets		64 855	25 732
Total assets		164 772	86 894
Current liabilities	25	20 542	20 (77
Trade payables	35 13	28 543	20 677 13 623
Borrowings Current tax liabilities	13	11 625 4 240	4 843
Other short term liabilities	12	4 240	7 751
Total current liabilities	12	59 118	46 894
Non-current liabilities			
Borrowings	13	1 064	21 459
Employee benefit obligations	16	2 509	1 421
Total non-current liabilities		3 572	22 880
Total liabilities		62 690	69 774
EQUITY			
Capital and reserves attributable to equity holders o	of the Company	1	
Share capital, share premium and other paid-in equity	17	198 996	77 940
Other reserves		-220	-104
Retained earnings		-96 694	-60 716
Total equity		102 082	17 120
Total equity and liabilities		164 772	86 894

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Attributable to equity holders of the Company

Amounts in USD 1 000	Nete	Share capital, share premium and	Othermore		Tatal and the
Amounts in USD 1 000	Note	other paid-in equity	Other reserves	Retained earnings	Total equity
Balance at 1 January 2006		1 958	-8	-35 445	-33 495
Currency translation differences		-	-96	-	-96
Net income/-expense recognised directly in equity		-	-96	-	-96
Loss for the year		-	-	-25 271	-25 271
Total recognised loss for 2006		-	-96	-25 271	-25 367
Reclassification of preference shares	14	72 660	-	-	72 660
Share-based payment	17	1 022	-	-	1 022
Proceeds from shares issued	17	2 299	-	-	2 299
Balance at 31 December 2006		77 940	-104	-60 716	17 120
Balance at 1 January 2007		77 940	-104	-60 716	17 120
Currency translation differences		-	-116	-	-116
Net income/-expense recognised directly in equity		-	-116	-	-116
Loss for the year		-	-	-30 925	-30 925
Total recognised loss for 2007		-	-116	-30 925	-31 041
Share-based payment	17	1 392	-	-	1 392
Dividends paid	17	-	-	-4 950	-4 950
Proceeds from shares issued – dividends converted	17	3 772	-	-	3 772
Proceeds from shares issued – options exercised	17	2 597	-	-	2 597
Proceeds from shares issued - IPO	17	113 295	-	-	113 295
Purchase of own shares	17	-4 968	-	-	-4 968
Use of shares for consideration acquired					
interest in joint venture	17	4 968	-	-102	4 866
Balance at 31 December 2007		198 996	-220	-96 694	102 082

The notes are an integral part of these consolidated financial statements.

Introduction EMGS technology Customer cases Financials

Electromagnetic Geoservices Group

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December

Amounts in USD 1 000		2007	2006
Net cash flow from operating activities:			
Loss before income tax		-27 541	-19 629
Adjustments for:			
Depreciation	11	12 483	7 036
Amortisation	10	994	474
Impairment of property, plant and equipment		-	892
Non-cash portion of pension expenses		1 088	583
Cost of share-based payments		1 392	1 022
Non-cash cost on preference shares and bonds		-	5 046
Increase in trade receivables		-928	-24 388
Increase in inventories		-6 884	-4 326
Increase in trade payables		7 866	7 026
Change in other working capital		-5 181	77
Change in fair value of conversion rights		-	22 969
Taxes paid		-3 987	-799
Net cash flow from operating activities		-20 698	-4 017
Investing activities:			
Investment in joint ventures	5	-13 212	-
Purchases of property, plant and equipment		-35 886	-12 666
Purchases of intangible assets		-1 905	-1 686
Cash used in investing activities		-51 003	-14 352
Financial activities:			
Financial lease payments-principal		-2 549	-1 773
Down-payment of bonds		-20 800	-
Proceeds from bonds offering		-	19 450
Proceeds from issuance of ordinary shares	17	115 892	2 299
Proceeds from preference share issuance		-	6 475
Payment of bank borrowings		-642	-
Additional proceeds from bank borrowings		-	9 854
Cash provided by financial activities		91 901	36 305
Net increase in cash		20 200	17 936
Cash balance beginning of period		20 485	2 549
Cash balance end of period		40 685	20 485
Increase in cash		20 200	17 936
Interest paid		-509	-1 159
Interest received		3 135	192

NOTES

Electromagnetic Geoservices Group (All amounts in USD thousands unless otherwise stated)

••••• Note 1

CORPORATE INFORMATION

Electromagnetic Geoservices ASA ("EMGS"/'the Company') and its subsidiaries (together 'the Group') use SeaBed-Logging (SBL), a patented electromagnetic survey method, to find hydrocarbons in offshore reservoirs. The Company's services help oil and gas companies to improve their exploration success rates. The Group has subsidiaries in Norway, Australia, Brazil, USA, Holland, Nigeria and Malaysia.

The Company is a public limited liability company incorporated and domiciled in Norway whose shares are publicity traded. The address of its registered office is Stiklestadveien 1, 7041 Trondheim.

These consolidated financial statements have been approved for issue by the Board of Directors and the Chief Executive Officer on the 27 March 2008.

••••• Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). IFRS as applied by the Group is the same as IFRS as adopted by the European Union ("EU"). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board ("IASB"). However, the consolidated financial statements for the periods presented would be no different had the Company applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU. The consolidated financial statements have been prepared under the historical cost convention. The principal accounting principles adopted are set out below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Changes in accounting policy and disclosures

The accounting policies adopted are

consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures:

- ····• IFRS 7, "Financial Instruments - Disclosures"
- ····• IAS 1, "Amendment Presentation of Financial Statements"
- IFRIC 8, "Scope of IFRS 2"
- ···· IFRIC 10, "Interim Financial Reporting and Impairment"

The Group has also early adopted the following IFRS and IFRIC interpretations. Adoption of these interpretations did not have any effect on the financial performance or position of the Group. IFRS 8 did however give rise to additional disclosures:

····• IFRS 8, "Operating Segments"

IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions"

The principal effects of these changes are as follows:

IFRS 7, "Financial Instruments – Disclosures" This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments. The new disclosures are included throughout the financial statement. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1, "Amendment – Presentation of Financial Statements"

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 3.

IFRIC 8, "Scope of IFRS 2"

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position of the Group.

IFRIC 10, "Interim Financial Reporting and Impairment"

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

IFRS 8, "Operating Segments"

This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group determined that the operating segment was the same as the business segment previously identified under IAS 14 "Segment Reporting". Additional disclosures about segments are shown in Note 19, including revised comparative information.

IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions"

The Group has elected to adopt IFRIC Interpretation 11 as of 1 January 2007, insofar as it applies to consolidated financial statements. The interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholder provide the equity instruments needed.

Interpretations of existing standards that are not relevant to the Group's operations.

The following published interpretations of existing standards are mandatory for the Group's accounting periods beginning on or after 1 January 2007. These interpretations are not relevant to the Group's operations:

- ····• IFRIC 7, "Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"
- IFRIC 9, "Reassessment of embedded derivatives". There have been no changes to any existing contracts within the Group that would require reassessment. As such, IFRIC 9 is not relevant to the Group.

2.3 Future changes in accounting policies

Certain new standards, amendments and interpretations of existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but which the Group has not early adopted, as follows:

- IFRIC 12, "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008).
- IAS 23, "Amendment Borrowing Costs" (effective for annual periods beginning on or after 1 January 2009).

- ····· IFRIC 13, "Customer Loyalty Programs" (effective for annual periods beginning on or after 1 July 2008).
- IFRIC 14, "IAS 19 the Limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction" (effective for annual periods beginning on or after 1 January 2008).
- IFRS 2, "Amendment Share based Payments – Vesting Conditions and Cancellations" (effective for annual periods beginning on or after 1 January 2009).
- IFRS 3R, "Business Combinations" and IAS 27R "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009).
- IAS 1R, "Revised Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009).
- ····· IAS 32, "Amendment to IAS 32" and IAS 1, "Amendment – Puttable Financial Instruments" (effective for annual periods beginning on or after 1 January 2009).

The interpretations are not expected to have any material impact on the financial position of the Group.

The Group plans to implement the interpretations when they are effective.

2.4 Consolidation

The consolidated financial statements incorporate the financial statements of EMGS ASA and entities controlled by EMGS ASA (subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control normally exists when EMGS has more than 50 % voting power through ownership or agreements.

The results of subsidiaries acquired or disposed during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses

resulting from intra-group transactions are eliminated in full.

2.5 Interests in joint ventures

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint ventures using the equity method.

Under the equity method, interest in joint ventures are carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to interest in joint ventures are included in the carrying amount of the investment and is not amortised. The income statement reflects the share of results of operation of the joint venture. Where there has been a change recognised directly in equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The equity method is used until the date on which the Group ceases to have joint control over the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies into line with those of the Group.

2.6 Foreign currency translations

a) Functional and presentation currency The financial statements of each entity within the Group reflect transactions recorded in the currency of the economic environment in which it operates ('the functional currency').

The consolidated financial statements are presented in US Dollars, (USD) which is the Company's functional currency and the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. EMGS operates in the oil service industry and USD is the currency that mainly influences sales prices for the Company's services. USD significantly influences the charter hire, material and other costs of providing services. USD is therefore the functional currency of the Company.

b) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the currency rate at the balance sheet date. All differences are recorded in profit and loss. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

c) Group companies

The results and financial position of Group companies (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet presented are translated at the rate of exchange ruling at the balance sheet date.

ii) revenues and expenses for each income statement presented are translated at average exchange rate for the year. However, if this average is not a reasonable approximation of the cumulative effect on the rates prevailing on the actual transaction dates, revenues and expenses are translated using the foreign exchange rates at the specific transaction dates.

iii) All resulting exchange differences are recognised as a separate component of equity. In the event a foreign operation is sold, any exchange differences previously recorded through equity is recognised as part of gain/loss on sales through the income statement.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes costs directly attributable to the acquisition of the item. Costs are included in the asset's carrying amount or recognised as a separate asset, if appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of all other repairs and maintenance are expensed as incurred.

Borrowing costs are recognised as an expense when incurred.

Depreciation on assets is calculated using the straight-line method. The assets are depreciated over their estimated useful life, adjusted for any estimated residual values.

Useful life:
3 - 5 years
5 years
3 - 5 years

* A cluster consists of IT equipment comprising of a large amount of processors for doing advanced data processing.

The assets' residual values, useful lives and method of depreciation are reviewed at each balance sheet date and adjusted if appropriate. If an asset's carrying amount is greater than its estimated recoverable amount, the asset is immediately written down to the recoverable amount (Note 2.9).

2.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit and loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period is reviewed at least each financial year-end.

(a) Patents

Patents have a definite useful life and are recorded at historical cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives (10 years). Administrative costs associated with patents are expensed as incurred.

(b) Computer software

The cost of acquired computer software licenses is capitalised based on the expenses incurred to acquire and bring the specific software to use. These costs are amortised over the estimated useful life (3 years). The costs of design of software interfaces, installing, testing, creating system and user documentation, defining user reports and data conversion are capitalised together with the software cost. These costs are directly related to developing the software application for the Company's use.

Costs associated with maintaining computer software are expensed as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the Group, and which are expected to generate economic benefits in excess of cost (beyond one year) are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful life, not to exceed three years.

(c) Research and development costs

Research costs are expensed as incurred. Development expenditure on individual projects is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit (3 years). During the period of development, the asset is tested for impairment annually.

Contributions from external customers and government grant in the development stage are recorded as a reduction of the intangible asset up to the amount that covers the cost price. The surplus is recorded as revenues.

Internal employee costs incurred during development phase were not capitalised in 2006 since the Group had no system in place for tracing and documenting these costs directly to each project.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the base levels for which separate cash inflows can be identified (cash-generating units). Non-financial assets other than goodwill previously impaired are reviewed at each reporting date for possible reversal of the previously recorded impairment. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that

would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior periods.

2.10 Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either; at fair value through profit or loss, loans and receivables, held-tomaturity investments, or available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

The Group has no financial assets classified as available-for-sale or held-to-maturity.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases and sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, unless maturity is more than one year from the balance sheet date, in which case the asset would be classified as non-current.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The Group currently does not engage in any types of hedging activity and does not apply hedge accounting.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The Group's inventory consists primarily of equipment components and parts, anchors, batteries and fuel.

2.13 Trade receivables

Trade receivables are recognised on initial recognition at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due under the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinguency in payments are considered indicators that the trade receivable may be impaired. The provision is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows. The provision is included in the income statement as part of other operating expenses.

2.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown as borrowings within current liabilities on the balance sheet.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are not subject to a significant risk of changes in value.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction from the proceeds.

2.16 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the borrowing period using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset is derecognised when:

- •••• the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risk and rewards of the asset, or (b) has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit and loss.

2.18 Convertible preference shares

Preference shares which are mandatory redeemable on a specific date are classified as liabilities. Dividends on these preference shares are recognised in the income statement as financial expense as incurred over time using the effective interest rate method.

On issuance of the convertible preference shares, the fair value of the conversion component denominated in NOK (not the Company's functional currency) is determined and this amount is included in the effective interest rate calculation of the preference shares. Since the conversion option is not denominated in the functional currency of the Company, it is accounted for as an embedded derivative. Subsequent changes in fair value of the conversion rights are charged to the income statement.

At the general meeting on 29 December 2006, the shareholders voted to amend the terms of the preference shares to remove the ability of the holders to require redemption at their option. As a consequence, the preference shares were at 31 December 2006 no longer considered a liability of the Company and were reclassified from liabilities to equity in the balance sheet. See Note 14 for more information.

2.19 Income tax

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(b) Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

2.20 Employee benefits (a) Pension obligations

The Company operates a defined benefit plan. The scheme is funded through payments to an insurance company, determined by periodic actuarial calculations. Typically, defined benefit plans define an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet related to the defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, plus adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates for the 10 years Government bond adjusted for duration approximately equal to the maturity to the related pension liability.

Social security tax is provided for based on the actual total pension liability.

Accumulated effects of changes in estimates, changes in assumptions and deviations from actuarial assumptions (actuarial gains or losses) that are less than 10% of the higher of pension benefit obligations and pension plan assets at the beginning of the year is not recorded. When the accumulated effect is above 10%, the excess amount is recognised in the income statement over the estimated average remaining service period.

The net pension cost for the period is classified as an employee expense.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuation expert using an appropriate pricing model, further details of which are given in Note 18.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. When options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Social security tax on share-based compensation is recorded as a liability and recognised over the estimated option period. The social security tax is calculated using the appropriate tax rate on the difference between market price and the exercise price at the measurement date.

(c) Bonus plans

The Group recognises a provision for bonus expenses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.21 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is the fair value of the consideration received or receivable for services in the ordinary course of the Group's activities. Revenue is shown net of withholding and value-added taxes and after elimination of sales within the Group. Revenue is recognised as follows:

(a) Sale of surveys

Fixed Rate Contracts/Unit Price Contracts: Revenue from contracts (whether priced as Lump Sum, Day Rate or Unit Price) is recognised based on the percentage of completion method, measured by reference to the percentage of vessel operational hours incurred to date versus the total estimated vessel operational hours for the project. Any amount received greater than that calculated as recognisable will be recorded on the balance sheet as deferred revenue and recognised in the applicable future periods. Conversely, any earned but unbilled revenue will be recognised as revenue in the current period and recorded as accrued revenue on the balance sheet. ("Vessel operational hours" is the actual amount of time incurred/ expected to be incurred in the productive acquisition of the seabed logging data.)

Mobilisation Fees:

Revenues for mobilisation are usually contracted with the customer and should cover the vessels transit to the actual area. Revenues and costs related to mobilisation are deferred and recognised over the acquisition period (which is the time from the first receiver is dropped to the last retrieval) of the contract, representing the acquisition period of the geological information, using the percentage of completion method. The deferral of mobilisation costs can only begin after a definitive contract has been executed between EMGS and the client. Until a contract is signed, costs are expensed as incurred.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the carrying amount is reduced to the recoverable amount, calculated as the estimated future cash flows discounted at the original effective interest rate of the instrument. The discount continues to be unwound as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.22 Leases

The determination whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. 53

a) Operating leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

b) Finance leases:

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. When there is reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the expected useful life.

2.23 Dividend distribution

Dividends distributed to the shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the shareholder meeting (general assembly).

2.24 Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash at hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.25 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions for loss on sales contracts are recognised when it is clear that the contract will result in a loss. The calculation is made by comparing the contracted revenues to the expected direct operating costs for the acquisition period.

•••••• Note 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and overdrafts, finance leases and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and short-term deposit which arise directly from its operations.

The Group has not entered into any derivative transactions in 2007 or 2006 and it is, and has been throughout 2007 and 2006 the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

(a) Foreign currency risk

The Group operates internationally and therefore has exposure to foreign exchange risk arising from transactions executed in foreign currencies, primarily with respect to NOK. Approximately 67% of the Group's sales are denominated in USD, whilst approximately 57% of costs are denominated in USD. Foreign exchange risk arises from future commercial transactions, recognised as assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, where net assets are exposed to foreign currency translation risk.

The following table demonstrates the sensitivity to a reasonably possible change in the NOK exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease NOK rate	Effects on profit before tax
2007	+5 %	1 352
	-5 %	-1 494
2006	+5 %	1 267
	-5 %	-1 400

(b) Credit risk

The Group trades with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. Although 3 major customers amount to a significant part of 2007 sales, these customers are large international oil companies, and considered creditworthy. Therefore, there are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group as cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with maximum exposure equal to the carrying amount of these instruments.

(c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans and financial leases.

The table below summarises the maturity profile of the Group's financial liabilities 31 December based on contractual payments.

		Less than	3 to 12	1 to 5		
Amounts in USD 1 000	On demand	3 months	months	years	> 5 years	Total
Year ended 31 December 2007						
Interest bearing loans and borrowings	9 824					9 824
Other liabilities					2 580	2 580
Trade and other payables		41 840				41 840
Other financial liabilities		575	1 245	1 217		3 0 37
Year ended 31 December 2006						
Interest bearing loans and borrowings	11 043			19 674		30 717
Other liabilities					1 421	1 421
Trade and other payables		28 428				28 428
Other financial liabilities		645	1 935	1 785		4 365

(d) Interest rate risk

As the Group has no significant interest-bearing assets or liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from leasing liabilities, short term borrowings and cash equivalents. Leasing agreements issued at variable rates expose the Group to interest rate risk.

(e) Capital management

The primary objective of the Group's capital management is to ensure healthy capital ratios to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors its capital structure on the basis of a total equity to total asset ratio. As of 31 December 2007 this ratio was 62%. In 2006 the ratio was 20%. The capital structure improvement, from previous fiscal year, was mostly due to the issuance of shares in connection with the Group's IPO in March 2007. It is the Group's-policy that the said ratio shall be above 50% during its current growth phase, which is expected to last for the next few years.

•••••• Note 4 CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates could deviate from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of the Group's property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate could change significantly as a result of technical innovations and increased competition. When remaining useful lives of assets are determined to be too high, management will make appropriate estimate revisions and adjust depreciation charges prospectively. Items determined to be technically obsolete or which have been abandoned will be written off completely.

Pension obligations

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net pension obligation at 31 December 2007 is 2 509 (2006: 1 421). Additional information is disclosed in Note 16.

Share-based payments

For options, the fair value is calculated using the Black Scholes option pricing model. Significant inputs in the model are share prices, standard deviation of share price returns, dividend yield and volatility. Changes in these estimates will influence the fair value calculated.

Revenue recognition

The Group uses the percentage-of-completion method in accounting for its contracts to deliver survey services. Use of the percentage-ofcompletion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. The proportion of services performed to total services to be performed can differ from management's estimates, influencing the amount of revenue recognised in the period.

Taxes

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the worldwide provision for income and deferred taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. In assessing whether a deferred tax asset can be realised, management uses judgment to determine that future taxable income is probable. Unrecognised tax assets at 31 December 2007 are 18 940 (2006: 6 600).

Development costs

Development costs are capitalised in accordance with accounting policy in Note 2.8 (c). Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to established project management model. At 31 December 2007, the carrying amount of capitalised development costs are 941 (2006: 0).

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Note 5 INTEREST IN A JOINT VENTURE

On 14 December 2007, the Group acquired 50% of the voting shares of KJT Inc, an unlisted company based in the USA. The KJT technology offers an alternative to the EMGS' proprietary methodologies in shallow water applications. KJT's technology is a significant new development since EMGS invented the EM industry. Through the acquisition of KJT, the Group improves the mix of products that the Group can offer to its clients.

The following share of fair value of the identifiable assets and liabilities of KJT Inc as at the date of acquisition is based on a preliminary allocation of the purchase price:

Amounts in USD 1 000	2007
Cash and cash equivalents	749
Trade receivables	239
Other receivables	21
Total assets	1 009
Trade payables	36
Other short term liabilities	700
Total liabilities	736
Net assets	273
Goodwill arising on acquisition	12 939
Total consideration	13 212

The total cost of the Group's interest in the joint venture was 13 212 and comprised an issue of shares of 5 408 (4 866 paid through purchase of own shares in 2007, the remaining was paid in 2008), cash of 7 000 and costs directly attributable to the acquisition of 804. The Group issued 648 984 ordinary shares with a fair value of USD 8.3 each, being the published price of the shares of EMGS ASA at 14 December.

From the date of acquisition, KJT Inc has contributed 0 to the net profit of the Group. If the acquisition had taken place at the beginning of the year, the loss for the Group would have been USD -30 872.

The goodwill of USD 12 939 comprises the fair value of expected synergies arising from the acquisition. The allocation of the purchase price is preliminary based on that the acquisition was done late in 2007 and the Group has limited experience with the technology acquired.

A summary of the financial information of KJT Inc, based on 100% figures for 2007:

Amounts in USD 1 000	2007
Assets	2 018
Liabilities	1 471
Equity	547
Revenues	2 615
Profit for the year	105

•••••• Note 6 CASH AND CASH EQUIVALENTS

Amounts in USD 1 000	2007	2006
Cash	39 585	19 934
Restricted cash	1 100	551
Total cash and cash equivalents	40 685	20 485

See Note 13 for explanation of overdraft facility.

Cash at bank items earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents equals the nominal value.

•••••• Note 7 TRADE RECEIVABLES

Amounts in USD 1 000	2007	2006
Accounts receivable	31 162	22 724
Accrued revenues	6 341	9 186
Provision for doubtful receivables	-4 665	-
Total trade receivables	32 838	31 910

Trade receivables are non-interest bearing and are generally on 30 days payment terms.

Fair value of the receivables approximates the nominal values, less provision for doubtful receivables.

Generally, the Group trades with recognised, creditworthy customers. The customers are usually large oil companies with an appropriate credit history. Only in a few instances services are performed for smaller companies with limited credit history.

At 31 December 2006 the Group assessed the trade receivables and found no invoices or contracts which were considered as a risk.

At 31 December 2007 trade receivables of 4 665 due from customers with liquidity problems was reserved for.

Movements in the provision for doubtful receivables are as follows:

Amounts in USD 1 000	2007	2006
At 1 January	-	-2 264
Charge for the year	-4 665	-
Amounts written off	-	2 483
Currency translation difference	-	-219
At 31 December	-4 665	-

As at 31 December, the aging analysis of trade receivables is as follows:

Amounts in USD 1 000	Total	Not due	<30 days	30 - 60 days	60 - 90 days	90-120 days	>120 days
2007	31 162	13 536	5 825	1 529	4 908	5 364	-
2006	22 724	15 125	-192	2 363	1 032	4 396	-

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•••••• Note 8 OTHER RECEIVABLES

Amounts in USD 1 000	2007	2006
Prepayments	11 647	788
Receivables VAT	2 002	678
Deferred mobilisation expenses	54	288
Other receivables	182	1 388
Total other receivables	13 885	3 142

Fair value of the receivables approximates the nominal values.

••••• Note 9

INVENTORIES

Amounts in USD 1 000	2007	2006
Equipment components and parts, at cost	8 259	4 005
Anchors and batteries, at cost	1 433	663
Fuel, at cost	2 817	957
Total inventories	12 509	5 625

Inventory items expensed during 2007 amounted to 15 883 (2006: 11 603, 2005: 5 275) and are included as components of operating expenses.

••••• Note 10 INTANGIBLE ASSETS

	Software and		
Amounts in USD 1 000	licenses	Patents	Tota
At 1 January 2006			
Accumulated cost	283	1 673	1 956
Accumulated amortisation	-125	-613	-738
Net carrying value	158	1 060	1 218
Year ended 31 December 2006			
Opening carrying value	158	1 060	1 218
Additions	1 450	-	1 450
Reclassification (Note 11)	236	-	236
Amortisation charge	-307	-167	-474
Closing carrying value	1 537	893	2 430
At 31 December 2006			
Accumulated cost	1 969	1 673	3 642
Accumulated amortisation	-432	-780	-1 212
Net carrying value	1 537	893	2 430
Year ended 31 December 2007			
Opening carrying value	1 537	893	2 430
Additions	879		879
Capitalised internally developed software	1 055	-	1 055
External contribution from customers	-29	-	-29
Amortisation charge	-828	-168	-996
Amortisation external contribution from customers	2	-	2
Closing carrying value	2 616	725	3 341
At 31 December 2007			
Accumulated cost	3 874	1 673	5 547
Accumulated amortisation	-1 258	-948	-2 206
Net carrying value	2 616	725	3 341
Amortisation charge for 2005	-64	-167	-231

The patents are related to SeaBed Logging, the Group's proprietary process which allows for the direct detection of hydrocarbons under the earth. The remaining amortisation period is 4 years.

	Estimated useful lives
Patents	10 years
Software and licences	3 years

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••••• Note 11

PROPERTY, PLANT AND EQUIPMENT

Amounts in USD 1 000	Machinery	Hardware	Chuster	
Att 1 January 2006	and equipment	and furniture	Cluster	Total
·····		1 215	2 4 4 2	26.010
Accumulated cost	22 360	1 215 -537	2 443	26 018
Accumulated depreciation	-8 263		-245	-9 045
Net carrying value	14 097	678	2 198	16 973
Year ended 31 December 2006				
Opening carrying value	14 097	678	2 198	16 973
Additions	12 119	2 374	-	14 493
Reclassification (Note 10)	-236	-	-	-236
Impairment	-724	-	-168	-892
Depreciation charge	-5 965	-633	-438	-7 036
Closing carrying value	19 291	2 419	1 592	23 302
At 31 December 2006				
Accumulated cost	33 519	3 589	2 275	39 383
Accumulated depreciation	-14 228	-1 170	-683	-16 081
Net carrying value	19 291	2 419	1 592	23 302
Year ended 31 December 2007				
Opening carrying value	19 291	2 419	1 592	23 302
Additions	26 223	6 434	4 827	37 484
Depreciation charge	-10 478	-1 550	-455	-12 483
Closing carrying value	35 036	7 303	5 964	48 303
At 31 December 2007				
Accumulated cost	59 742	10 023	7 102	76 867
Accumulated depreciation	-24 706	-2 720	-1 138	-28 564
Net carrying value	35 036	7 303	5 964	48 303
Depreciation charge 2005	-3 432	-229	-245	-3 906

In 2006, 236 related to processing software was reclassified from machinery and equipment to software and licenses.

Finance leasing included in property, plant and equipment:

Accumulated depreciation				-2 332
A	-	-1 187	-1 138	2 3 5 2
Cost of capitalised finance leases		3 357	2 275	5 632
2007				
Net carrying value	988	1 475	1 592	4 055
Accumulated depreciation	-1 385	-284	-683	-2 352
Cost of capitalised finance leases	2 373	1 759	2 275	6 407
2006				

The amount of Property, Plant & Equipment pledged as security for liabilities has a net carrying value of 3 307 as of December 31 2007 (2006: 4 055).

	Estimated useful lives
Machinery and equipment	3-5 years
Hardware and furniture	3-5 years
Cluster	5 years

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••••• Note 12 OTHER SHORT TERM LIABILITIES

Amounts in USD 1 000	2007	2006
Accrued expenses	5 917	3 614
Holiday pay	1 583	972
Social security taxes and other public duties	4 493	2 859
Other short term liabilities	2 717	306
Total other short term liabilities	14 710	7 751

Accrued expenses are generally on 30 days payment terms.

••••• Note 13

BORROWINGS

Total borrowings	12 689	35 082
Total	11 625	13 623
		2 361
Finance lease liabilities		
Bank borrowings	9 8 2 4	11 262
Current		
Total	1 064	21 459
Bonds	-	19 826
Loans	-1	177
Finance lease liabilities	1 065	1 456
Non-current		
Amounts in USD 1 000	2007	2006

Bank borrowings are secured by the accounts receivable, bank accounts and rights, licences, patents and similar rights of the Group. Interest rate on the bank borrowing is NIBOR + 1 percentage point per annum and the termination date is 1 June 2008. The finance lease liabilities relate to certain property, plant and equipment and are capitalised leases for financial reporting purposes. The related leased property, plant and equipment serve as the collateral under such leases.

All of the Group's borrowings have floating interest rates.

The exposure of the Group's borrowings to interest rate changes related to floating rate obligations and the contractual repricing dates of those obligations at the balance sheet dates are as follows:

Amounts in USD 1 000	2007	2006
6 months or less	12 689	15 256
6-12 months	-	-
1-5 years	-	-
Over 5 years	-	-
Total	12 689	15 256

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	2007	2006
Between 1 and 5 years	1 064	21 459
Over 5 years	-	-
Total	1 064	21 459

EMGS technology Customer cases Financials The carrying amount and fair value of the non-current borrowings are as follows:

Amounts in USD 1 000	Carry	ing amounts	Fair v	alues
	2007	2006	2007	2006
Leasing liabilities	1 065	1 456	1 065	1 456
Loans	-1	177	-1	177
Bonds	-	19 826	-	19 486

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

The carrying amount of the Group's borrowings are as follows:

Amounts in USD 1 000	2007	2006
USD denominated	-	19 826
NOK denominated	12 689	15 256
Total	12 689	35 082

The Group has 9 057 (2006: 5 579) undrawn borrowing facilities expiring within one year. The borrowing facility has a floating rate. The facilities expiring within one year are annual facilities subject to review during 2008. The effective interest rates at the balance sheet date were as follows:

2007		2006	
NOK	USD	NOK	USD
9.17 %	-	5.29 %	-
-	-	-	12.83 %
6.46 %	-	7.81 %	-
-	-	32.07 %	-
	ок 9.17 % -	NOK USD 9.17 % -	NOK USD NOK 9.17 % - 5.29 % - - - 6.46 % - 7.81 %

••••• Note 14

PREFERENCE SHARES

At the event of the IPO at March 30, 2007, preference shares of all classes were converted into ordinary shares at the ratio of 1:1.

Preference shares were issued for the first time in Q4 2004 (preference shares class "A" and preference shares class "B"). Additional shares of class "B" were again issued on 10 June 2005. Class "C" shares were issued on 15 December 2005 and 21 June 2006.

Each class of preference shares were entitled to receive dividends at a rate of NIBOR + 5 percentage point, accruing and compounding semiannually, based on the purchase price of each share. The shares had a mandatory redemption date of 1 October 2009. Up to this date, each class of shareholders had the right, upon majority agreement of the respective class, to convert the preference shares into common shares at a 1:1 ratio. At the option of the converting shareholder class, accumulated and unpaid dividends was converted to common shares , determined by dividing the accumulated and unpaid dividend by the respective purchase price of the converting class. See note 31 for amount on dividend approved. The total amount of preference shares class A, B and C were 24 962 903 and these shares had a weighted conversion/ redemption price of USD 1.34 (NOK 8.40).

Conversion rights at fair value:

The preference shares contained a conversion option that constituted a financial instrument that must be bifurcated and must be accounted for as an embedded derivative at fair value and separately accounted for based on the fair value. On the date of grant, and each reporting date thereafter, the fair value of the conversion options was determined using an option pricing model. The estimated share value at each reporting date was the most important input factor when determining the fair value of the conversion options were 22 969 and 8 961 in 2006 and 2005, respectively. The change in fair value has been reflected as an income statement expense within the financial income and expense line in the consolidated income statement. The change in fair value is a non-cash expense. As a result of the bifurcation of the conversion option, the carrying amount of the preference shares during 2005 and most of 2006 was less than the face amount. This difference has been accreted over the period through the redemption date of the preference shares using the effective interest method. The amount of the accretion for 2006 and 2005 has been included within financial expense in the consolidated income statement.

Preference shares at amortised cost at 31 December

Amounts in USD 1 000	2007	2006	2005
Preference A	-	-	3 210
Preference B	-	-	5 942
Preference C	-	-	3 176
Total amortorised cost preference shares	-	-	12 328

The fair value of preference shares approximated the carrying amounts exclusive of the conversion option at 31 December 2006 and 2005. As noted above, the conversion option was accounted for at fair value during 2005 and nearly all of 2006 and as such, its carrying amount approximated its fair value at year end 2006 and 2005.

Reclassification of preference shares:

At the general meeting on 29 December 2006, the shareholders voted to amend the terms of the preference shares to remove the ability of the holders to require redemtion at their option. As a consequence, the preference shares were at 31 December 2006 no longer considered a liability of the Company and were reclassified from liabilities to equity in the balance sheet.

Because such preference shares were no longer liabilities, the embedded conversion option was not required to be separately accounted for. This amount was reclassified into shareholders equity from liabilities. At the event of the IPO, preference shares of all classes were converted into ordinary shares.

Amounts in USD 1 000	Preference shares	Conversion rights	Total
Opening balance 1 January 2006	12 328	25 090	37 418
Amortised cost expenses in 2006	4 670	-	4 670
Issue of preference shares in 2006	4 386	2 089	6 475
Change in fair value of conversion rights through P/L	-	22 969	22 969
Currency translation difference	1 129	-	1 129
Total reclassified	22 513	50 148	72 660

•••••• Note 15 ACCOUNTING FOR FINANCE LEASES BY LESSEE

The Company has finance lease agreements for hardware, furniture and cluster.

Finance lease liabilities - minimum lease payments

Amounts in USD 1 000	2007	2006
No later than 1 year	1 820	2 580
After 1 year and no more than 5 years	1 217	1 785
After more than 5 years	-	-
	3 037	4 365
Future finance charges on finance leases	-171	-548
Present value of finance lease liabilities	2 866	3 817
The present value of finance lease liabilities is as follows: No later than 1 year	1 801 1 065	2 361 1 456
After 1 year and no more than 5 years (Note 13)		1 100
After Tyear and no more than 5 years (Note 13) After more than 5 years	-	-

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•••••• Note 16 EMPLOYEE BENEFIT OBLIGATIONS

The Company operates a defined benefit plan. The number of employees included as of year-end are 55 in 2005, 113 in 2006 and 188 in 2007. The plan only includes employees employed in Norway.

Amounts in USD 1 000	2007	2006	2005
Balance sheet obligations for:			
Pension obligations	2 509	1 421	838
Income statement charge for:			
Pension obligations	2 507	1 463	721

Pension benfits

The amounts recognised in the balance sheet are determined as follows:

Amounts in USD 1 000	2007	2006	2005
Defined benefit obligation	7 821	3 683	1 359
Fair value of plan assets	-3 681	-1 648	-657
	4 140	2 035	702
Unrecognised actuarial gain (loss)	-1 631	-614	136
Liability in the balance sheet	2 509	1 421	838

The movement in the defined benefit obligation over the year is as follows:

Amounts in USD 1 000	2007	2006	2005
Beginning of the year	3 683	1 359	754
Exchange differences	772	168	-100
Current service cost	2 126	1 240	613
Interest cost	163	78	41
Actuarial losses/(gains)	978	777	-41
Social security tax	99	62	92
End of the year	7 821	3 683	1 359

The movement in the fair value of plan assets to the year is as follows:

Amounts in USD 1 000	2007	2006	2005
Beginning of the year	1 648	657	488
Expected return on plan assets	135	60	33
Actuarial (losses)/gains	45	32	-183
Exchange differences	146	-62	-38
Employer contributions	1 707	961	357
End of year	3 681	1 648	657

The amounts recognised in the income statement are as follows:

Amounts in USD 1 000	2007	2006	2005
Current service cost	2 126	1 240	613
Interest cost	163	78	41
Expected return on plan assets	-135	-60	-33
Amortisation of actuarial (gain)/loss	10	5	-
Social security tax	310	181	89
Administration fee	33	19	12
Net benefit expense	2 507	1 463	721

The principal actuarial assumptions used are as follows:

	2007	2006	2005
Discount rate	4.70 %	4.35 %	4.50 %
Expected rate of return on plan assets *	5.75 %	5.40 %	5.50 %
Expected future salary increases	4.50 %	4.50 %	3.00 %
Expected rate of pension increases	4.25 %	1.70 %	2.50 %
Social security tax - rate	14.10 %	14.10 %	14.10 %

*The expected rate of return on plan assets is determined based on market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The change in actuarial assumptions in 2007 is in accordance with guidance published by the Norwegian Accounting Standards Board in September 2007.

Assumptions regarding future mortality experience are based on public statistics. The mortality table, K2005, is based on best estimates for the population in Norway.

Plan assets comprise:

	2007	2006	2005
Shares	24.80 %	22.70 %	23.30 %
Current assets	29.00 %	32.00 %	34.70 %
Bonds	27.70 %	32.00 %	27.30 %
Property	15.60 %	13.10 %	12.20 %
Other	2.90 %	0.20 %	2.50 %
Total	100 %	100 %	100.00 %

Expected contributions to post-employment benefit plans for the year ending 31 December 2008 are 1 792.

Amounts in USD 1 000	2007	2006	2005	2004
As at 31 December				
Present value of defined benefit obligation	7 821	3 683	1 359	754
Fair value of plan assets	3 681	1 648	657	488
Deficit/(surplus)	4 140	2 035	702	266
Experience adjustments on plan liabilities	978	326	-232	-
Experience adjustments on plan assets	45	32	96	-

••••• Note 17

SHARE CAPITAL, SHARE PREMIUM AND OTHER PAID-IN CAPITAL

	Number of shares	Number of shares issued not registered	Ordinary share capital	Ordinary share capital not registered	Share premium	Other paid- in capital	Preference shares	Own shares	Total
At 1 January 2006	40 919 000	-	1 454	-	-	504	-	-	1 985
Reclassification of preference shares	-	-	-	-	-	-	72 660	-	72 660
Share-based payment	-	-	-	-	-	1 022	-	-	1 022
Proceeds from options exercised	-	1 700 000	-	68	2 231	-	-	-	2 299
At 31 December 2006	40 919 000	1 700 000	1 454	68	2 231	1 527	72 660	-	77 940
At 1 January 2007	40 919 000	1 700 000	1 454	68	2 231	1 527	72 660	-	77 940
Shares registered	1 700 000	-1 700 000	68	-68	-	-	-	-	-
Conversion of pref. to ordinary shares	24 962 903	-	1 024	-	71 636	-	-72 660	-	-
Share-based payment	-	-	-	-	-	1 392	-	-	1 392
Capital incr with payment from dividends	168 670	-	7	-	3 765	-	-	-	3 772
Proceeds from options exercised	936 200	-	41	-	2 556	-	-	-	2 597
Proceeds from shares issued – IPO	5 500 000	-	227	-	113 068	-	-	-	113 295
Purchase of own shares	-	-	-	-	-	-	-	-4 968	-4 968
Use of shares for consideration acquired interest in joint venture	-	-	-	-	-	-	-	4 968	4 968
At 31 December 2007	74 186 773	-	2 821	-	193 256	2 919	-	-	198 996

At the IPO EMGS issued 5 500 000 shares at the price of USD 22.14 (NOK 135) per share. Costs related to the capital increase of 9 068 were recorded as a reduction of the share premium.

The total authorised number of ordinary shares is 74 186 773 shares (2006: 40 919 000 shares) with a par value of USD 0.05 (NOK 0.25) per share. All issued shares are denominated in NOK and fully paid.

Number of shares, shareholders:

	Numbers of ordinary shares	Percentage
Warburg Pincus Investments	46 307 312	62.42 %
State street bank and trust Co.	4 037 111	5.44 %
Morgan Stanley & co. Inc.	2 290 290	3.09 %
UBS AG, London branch	2 073 578	2.80 %
JPMorgan Chase bank	1 754 500	2.36 %
Bruheim Bjarte Henry	1 715 302	2.31 %
Eidesmo Terje	854 214	1.15 %
Ellingsrud Svein	840 214	1.13 %
JPMorgan Chase bank	660 200	0.89 %
Mellon Bank AS	627 125	0.85 %
Johansen Ståle	576 214	0.78 %
Skogen Erik	472 881	0.64 %
Strack Kurt Martin	420 088	0.57 %
Storebrand livsforsikring AS	385 770	0.52 %
Fortis bank Luxembourg S.A.	269 417	0.36 %
Citibank N.A.	255 350	0.34 %
Bank of New York, Brussel branch	250 000	0.34 %
Verdipapirfondet KLP Askjenorge	250 000	0.34 %
Bank of New York (Luxembourg)	220 248	0.30 %
Skeie Capital Investment AS	220 000	0.30 %
Others	9 706 959	13.08 %
Total	74 186 773	100.00 %

SHARE OPTIONS

Share options are granted to key employees and Board of Directors.

The expense recognised for employee services during the year is:

Amounts in USD 1 000	2007	2006	2005
Expense arising from share based options	1 392	1 022	363

The vesting period is the period during which the conditions to obtain the right to exercise are to be satisfied.

The options granted shall vest as follows:

..... 20 % on the Grant Date

2005

- 20 % one year following the Grant Date
- 20 % two years following the Grant Date
- 20 % three years following the Grant Date
-> 20 % four years following the Grant Date

The Grant expires seven years following the Grant Date. A condition to hold options within the Company is continued employment.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be actual outcome. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The cost of the options is calculated based on the Black Scholes option pricing model.

The following table lists the inputs to the model used for the plan for the years ended 31 December 2007, 2006 and 2005:

	2007	2006	2005
Expected volatility (%)	0.53	0.53	0.55
Risk free interest rate (%)	3.99	3.99	3.95
Expected life of options (years)	5	7	7
Weighted average share price (USD)	2.70	1.69	0.66

Expected volatility was determined based historic volatility on comparable listed companies.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2	2007		2006		2005
	Average exercise price in USD per share	Options	Average exercise price in USD per share	Options	Average exercise price in USD per share	Options
At 1 January	2.83	3 151 500	1.52	3 350 000	1.52	2 900 000
Granted	16.63	10 000	4.09	1 501 500	1.52	450 000
Forfeited	-	-	-	-	-	-
Exercised	2.96	-936 200	1.35	-1 700 000	-	-
Lapsed	4.81	5 000	-	-	-	-
At 31 December	3.46	2 220 300	2.83	3 151 500	1.52	3 350 000
Exercisable at 31 December	3.28	582 300	2.98	557 500	1.08	1 250 000

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	In USD per share	Options
2011	1.17 and 1.75	2 900 000
2012	1.75	450 000
		3 350 000

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2006

	In USD per share	Options
2011	1.17 and 1.75	1 280 000
2012	1.75	370 000
2013	2.16 and 4.16	1 501 500
		3 151 500

2007

	In USD per share	Options
2011	2.02	835 000
2012	1.35 and 2.02	247 000
2013	2.49 and 4.81	1 128 300
2014	16.63	10 000
		2 220 300

The weighted average remaining contractual life for the share options outstanding as at 31 December 2007 is 4.85 years (2006: 5.77 years, 2005: 5.65 years).

The weighted average fair value of options granted during the year was 40.56 (2006: 12.96, 2005: 3.77).

••••• Note 19

SEGMENT

For management purposes, the Group is organised into one reportable segment. The Group offers one product; SeaBed Logging and the sale contracts and costs are incurred world wide. The Group uses SeaBed Logging, a patented electromagnetic survey method, to find hydrocarbons in offshore reservoirs. The Group's services help oil and gas companies to improve their exploration success rates.

Management monitors the operating result of the single reportable segment for the purpose of making decisions about resource allocation and performance assessment.

No operating segments have been aggregated to form the above reportable operating segment.

The customers are international oil companies and the risk and profitability is similar in the different geographical areas. The Group's main property, plant and equipment are the survey equipment on the vessels. As the surveys are executed world wide, the Group is not able to allocate any assets to different geographical areas.

Geographic infomation

Revenues from external customers

Amounts in USD 1 000	2007	2006	2005
Norway	54 715	11 037	14 089
Australia	17 936	-	-
India	16 753	51 606	2 060
Brazil	12 363	-	13 754
Canada	9 092	9 200	-
Congo	7 936	-	-
Malaysia	6 841	17 002	1 032
USA	75	16 240	-
Mauritania		-	8 439
Others	14 628	12 663	4 671
Total	140 339	117 748	44 045

The revenue information above is based on the location of the survey.

Three single external customers amounted to 10% or more of the Group's total revenues both in 2007, 2006 and 2005. Total revenues on each of these customers were in 2007 22 711, 18 455 and 16 753 (for 2006: 36 738, 16 748 and 14 868, for 2005: 13 754, 10 069 and 8 439).

••••• Note 20

EMP	LOYEE	EXPENSE	

Amounts in USD 1 000	2007	2006	2005
Employee expense			
Salaries	22 454	12 839	5 594
Social Security tax	4 313	1 998	777
Pension costs (Note 16)	2 507	1 463	721
Other payments 2005	2 265	832	522
Cost of share based payment (Note 18)	1 392	1 022	363
Total employee expense	32 931	18 154	7 977
Compensation of key management personnel of the Group		••••••	
Salary	2 769	2 547	1 602
Bonus paid in the year	1 075	577	93
Share options	997	688	299
Pension benefits	232	157	131
Other benefit	277	189	146
Total management remuneration	5 350	4 158	2 271

••••• Note 21 OTHER OPERATING EXPENSES

Amounts in USD 1 000	2007	2006	2005
Rental and housing expenses	1 826	1 158	480
Consumables and maintenance	1 526	773	407
Consultancy fees *	7 318	7 045	2 542
Travel expenses	4 331	2 434	1 282
Insurance	1 363	1 079	623
Loss on trade receivable	2 181	9	2 264
Marketing	2 577	1 590	652
Other operating expenses	4 563	2 074	2 249
Total other operating expenses	25 685	16 162	10 499
* Fees to auditor included in consultancy fees:			
Statutory audit services	499	181	32
Further assurance services	-	24	14
Tax advisory services	-	24	154
Other non-audit services	742	167	-
Total fees to auditor	1 241	396	200

Other non-audit services in 2007 consist mainly of services provided in connection with IPO and conversion to IFRS.

Introduction EMGS technology Customer cases Financials Research and development costs consist of 6 402 (2006: 5 120, 2005: 2 524) charged to the income statement as part of operating expenses and 86 (2006: 0, 2005: 0) of amortisation of previously capitalised development costs.

••••• Note 23

FINANCIAL ITEMS

Amounts in USD 1 000	2007	2006	2005
Financial income:			
Interest income on short term bank deposits	3 135	192	34
Foreign exchange rate gains	1 489	2 044	2 107
Total financial income	4 624	2 236	2 141
Change in fair value of conversion rights (Note 14)	-	-22 969	-8 961
Financial costs:			
Interest expense	3 893	1 688	545
Foreign exchange rate losses	2 608	5 658	86
Other financial expenses	94	4 728	2 241
Total financial costs	6 595	12 074	3 052
Net financial income	-1 971	-32 807	-9 872

EMGS' borrowings (including preference shares) are denominated in NOK. Both in 2007 and 2006 the USD weakened against NOK. The exchange rate loss is related to loss on borrowings denominated in NOK (including 1 129 related to preference shares in 2006). In 2005 the USD strengthened against NOK. The exchange rate gain is related to gain on these borrowings (including 892 related to preference shares).

••••• Note 24

INCOME TAX EXPENSE

Amounts in USD 1 000	2007	2006	2005
Current tax	3 384	5 642	195
Total income tax expense	3 384	5 642	195

The expense/(benefit) for income taxes from continuing operations differs from the amount computed when applying the Norwegian statutory tax rate to income/(loss) before taxes as the result of the following:

Amounts in USD 1 000	2007	2006	2005
Loss before tax	-27 541	-19 629	-23 065
Tax at the domestic rate of 28%	-7 711	-5 496	-6 458
Non-deductible expenses and other	-4 629	350	2 160
Expenses related to preference shares not deductible for tax purposes	=	7 739	3 119
Change in deferred tax asset, not recognized	12 340	-2 593	1 179
Foreign income taxes	3 384	5 642	195
Tax charge	3 384	5 642	195

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••••• Note 25

DEFERRED TAX

Amounts in USD 1 000	2007	2006
Property, plant and equipment	-2 529	-1 414
Trade receivables	-1 306	-
Pension obligations	-722	-398
Accrued foreign income taxes and other accruals	-1 289	-1 356
Loss carried forward	-13 094	-3 432
Total deferred tax (asset)/liability	-18 940	-6 600
Non-recognised deferred tax assets	18 940	6 600

Deferred tax assets are recognised only to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise any deferred income tax assets through year end 2007 and 2006.

Unused tax losses are generated in Norway, Malaysia and the US. It can be carried forward indefinitely in Norway and Malaysia. The unused tax loss in the US of 1 340 can be carried forward in 20 years. The unused tax loss in the US was generated in 2005, hence it will expire in 2025.

The Group's temporary differences associated to investment in subsidiaries and joint venture, for which deferred tax liability has not been recognised is immaterial both for 2007 and 2006.

••••• Note 26

CHARTER HIRE, FUEL AND CREW EXPENSES

Charter hire, fuel and crew expenses	93 816	62 744	34 625
Other external services	33 563	17 746	8 312
Fuel	9857	7 815	3 736
Charter hire and crew expenses	50 396	37 183	22 577
Amounts in USD 1 000	2007	2006	2005

••••• Note 27 **CONTINGENCIES**

The Group has contingent liabilities in respect of other guarantees and matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Group has given guarantees in the ordinary course of business to third parties as specified below:

Amounts in USD 1 000	2007	2006
Office premises rental guarantees	424	191
Guarantees on SeaBed Logging contracts	1 949	1 225
Total guarantees	2 372	1 416

Guarantees on office premises are valid as long as the contracts are active. Guarantees on SeaBed Logging contracts are due within one year, and are secured by bank guarantees.

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COMMITMENTS

Operating lease commitments:

The Group has operating leases on charter hires, office premises and IT infrastructure.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Total operating lease commitments	192 527	123 740
After more than 5 years	10 191	10 756
After 1 year and no more than 5 years	131 478	78 717
No later than 1 year	50 858	34 267
Amounts in USD 1 000	2007	2006

Contract terms on renewal of the leases are to be negotiated at or before the expiry of the contracts. The charter hire contracts have renewal options of different durations.

Operating leases recognised as expense in the period:

Amounts in USD 1 000	2007	2006
Charter hire	39 245	25 398
Office premiss	1 235	783
IT infrastructure	76	43
Total	40 556	26 224

Other contractual commitments:

Through the purchase of KJT Inc shares, the Group is committed to pay performance bonus of 1 006 over 3 years and retention bonus of 1 869 after 3 years to KJT employees.

The Group has entered into an 11 year's license agreement with KJT Inc. 1 000 should be paid to KJT annually as license fees from 2008 to 2019.

••••• Note 29

LEGAL CLAIM

On October 4 2006 the Company launched proceedings in the High Court of London against Offshore Hydrocarbon Mapping plc ("OHM"). These proceedings were settled in March 2007, without any material financial impact.

In April - June of 2007, Schlumberger Holdings Limited (SLB) launched proceedings in the High Court of London and before the District Court of the Hague seeking to revoke three of EMGS' patents. A hearing before the District Court of the Hague took place in February 2008, and a ruling is expected in April 2008. A hearing before the High Court of London is scheduled for June 2008. The proceedings relate to claims put forward by SLB for revocation of the three EMGS patents, and do not contain claims for monetary damages by either party except for in relation to legal expenses. The proceedings are therefore not considered to have a material financial impact.

In January 2008 two of EMGS' former employees / offshore personnel launched proceedings before the local court Trondheim Tingrett after having received Notice of dismissal from EMGS in October 2007. One employee is claiming to be reinstated in his position in addition to an unfixed claim for monetary damages related to loss of income and an indemnification limited to the amount of 49. The other employee has claimed an indemnification limited to the amount of 49 in addition to the amount of 39 for loss of income. The proceedings are supposed to take place in April 2008.

••••• Note 30 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2007	2006	2006
Loss attributable to equity holders of the Company	-30 925	-25 271	-23 260
Weighted average number of ordinary shares outstanding (thousands)	66 173	40 933	40 919
Loss per share (USD per share)	-0.47	-0.62	-0.57

The Company has one category of dilutive potential ordinary shares; share options. Share options would decrease the loss per share and accordingly these effects have not been taken into account when calculating diluted loss per share.

In 2006 and 2005 the Company also had convertible preference shares, also these would decrease the loss per share and were not taken into account when calculating diluted loss per share.

Note 31

Declared during the year:

Amounts in USD 1 000	2007	2006
Equity dividends on ordinary shares:		
Final dividends for 2006	4 950	-
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares	-	4 800

Dividends were converted to ordinary shares, as described in Note 14 and 17. Dividends are nominated in NOK, and the difference between approved and declared dividend is caused by changes in the NOK rate.

Average of dividend per preference share was USD 0.20 per share.

••••• Note 32

RELATED-PARTY TRANSACTIONS

Bjarte Henry Bruheim is Executive Chairman of both EMGS ASA and Odim ASA. He holds 2.31% of the shares in EMGS ASA and 3.99% of the shares in Odim ASA. Odim ASA. Odim ASA is a major supplier of winch and handling systems in the offshore industry. The Company has bought all five of its systems from Odim ASA. EMGS has bought all systems at market price and under customary terms.

The Company has an agreement with BKCCA Oilfield Services de Mexico S.A. de C.V. (BKCCA). BKCCA will provide marketing services on behalf of the company relating to work for PEMEX. The agreement expires in September 2010, unless terminated by the parties prior to such date. Under the terms of the agreement, BKCCA is entitled to receive 7% commission on each PEMEX contract obtained by the company. Bjarte H. Bruheim holds 24% of the shares in BKCCA.

The following transactions were carried out with related parties:

Purchases of goods and services:

Amounts in USD 1 000	2007	2006
Odim ASA	10 454	2 351
ВКССА	62	-

Year-end balances arising from purchases of goods:

Payables to related parties:		
Amounts in USD 1 000	2007	2006
Odim ASA	2 172	131
ВКССА	62	-

••••• Note 33

INVESTMENT IN SUBSIDIARIES

Company	Share ownership/ voting rights 2007	Share ownership/ voting rights 2006	Equity 31.12.07	Equity 31.12.06	Location
EMGS Americas 1 AS	100 %	100 %	18	16	Trondheim, Norway
EMGS Americas 2 AS	100 %	100 %	18	15	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	100 %	17	15	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	100 %	100 %	2 680	-2 032	Rio de Janeiro, Brasil
EMGS Americas LP	100 %	100 %	-1 609	-1 627	Delaware, USA
EMGS International B.V.	100 %	100 %	-10	11	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	49 %	49 %	343	60	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100 %	100 %	31	-3 063	Kuala Lumpur, Malaysia
Global EMGS Nigeria Ltd	35 %	35 %	-	-	Lagos, Nigeria
EMGS Australia Pty Ltd	100 %	-	17	-	Perth, Australia

The Group consolidate Electromagnetic Geoservices Malaysia Sdn Bhd and Global EMGS Nigeria Ltd at 100 % as the Company has full control in both companies. Side agreements shows that EMGS has all the rights and obligations of 100 % ownership.

••••• Note 34 PROVISIONS

Provisions for loss on sales contracts are recognised when it is clear that the contract will result in a loss. The calculation is made by comparing the contracted revenues to the expected direct operating costs for the acquisition period.

There has been no new accrual for 2007.

Amounts in USD 1 000	2007	2006
At 1 January	-	981
Accrual for loss on sales contract	-	-
Utilised	-	-981
At 31 December	-	-



Trade payables are generally non-interest bearing and on 30 days payment terms. Fair value of the payables equals the nominal value of 28 543 (2006: 20 677).

Electromagnetic Geoservices ASA

INCOME STATEMENT

January 1 - December 31

Amounts in NOK 1 000	Note	2007	2006
Operating revenue			
Contract sales	1,11	757 026	752 683
Total operating revenue	·····-	757 026	752 683
Operating expenses			
Charter hire, fuel and crew expenses	2,3,4	509 342	392 886
Employee expense	5,6	190 024	100 244
Depreciation and amortisation	7	86 150	53 167
Other operating expenses	6	167 942	108 442
Total operating expenses	·····	953 459	654 739
Operating income		-196 433	97 944
Financial income and expenses			
Financial income	16	58 631	14 000
Financial expenses	16	120 946	33 299
Net financial items	·····-	-62 315	-19 299
Income (loss) before tax		-258 749	78 644
Income tax expense	8	11 268	35 440
Net income (loss) for the year		-270 017	43 204
For information			
Dividend		-	30 024

Electromagnetic Geoservices ASA

ASSETS As at December 31

Amounts in NOK 1 000 Note 2007 2006 Non-current assets Intangible assets 7,9 6 500 8 000 Software, licenses etc. 7,9 14 278 8 990 Total intangible assets 20 778 16 990 Property, plant and equipment 7,9 283 558 148 749 Financial assets 10 15 164 3 272 Interest in a joint venture 17 72 325 - Total inon-current assets 391 825 169 011 Current assets 31 082 25 088 Inventories 3 70 254 35 184 Receivables 9,11,12 176 579 215 998 Receivables group companies 12 31 082 25 088 Other receivables 24 23 021 262 878 Cash and cash equivalents 13 186 061 120 297 Total current asse				
Intangible assets 7.9 6 500 8 000 Software, licenses etc. 7.9 14 278 8 990 Total intangible assets 20 778 16 990 Property, plant and equipment 7.9 283 558 148 749 Financial assets 10 15 164 3 272 Interest in a joint venture 17 72 325 - Total innon-current assets 891 825 169 011 Current assets 391 825 169 011 Current assets 391 825 169 011 Receivables 3 70 254 35 184 Receivables 12 31 082 25 088 Other receivables 74 360 21 792 Total receivables 24 31 082 25 088 Other receivables 74 360 21 792 Total receivables 13 186 061 120 297 Total current assets 13 186 061 120 297	Amounts in NOK 1 000	Note	2007	2006
Patents 7,9 6 500 8 000 Software, licenses etc. 7,9 14 278 8 990 Total intangible assets 20 778 16 990 Property, plant and equipment 7,9 283 558 148 749 Financial assets 10 15 164 3 272 Interest in a joint venture 17 72 325 - Total innon-current assets 87 489 3 272 Total non-current assets 391 825 169 011 Current assets 391 825 169 011 Current assets 3 70 254 35 184 Receivables 3 70 254 35 184 Receivables 9,11,12 176 579 215 998 Receivables 74 360 21 792 1082 25 088 Other receivables 74 360 21 792 102 297 262 878 Cash and cash equivalents 13 186 061 120 297 Total current assets 538 336 418 359	Non-current assets			
Software, licenses etc. 7,9 14 278 8 990 Total intangible assets 20 778 16 990 Property, plant and equipment 7,9 283 558 148 749 Financial assets 10 15 164 3 272 Investment in subsidiaries 10 15 164 3 272 Interest in a joint venture 17 72 325 - Total financial assets 87 489 3 272 Total non-current assets 391 825 169 011 Current assets 391 825 169 011 Inventories 3 70 254 35 184 Receivables 9,11,12 176 579 215 998 Receivables group companies 12 31 082 25 088 Other receivables 74 360 21 792 215 2878 Cash and cash equivalents 13 186 061 120 297 Total current assets 538 336 418 359	Intangible assets			
Total intangible assets 20 778 16 990 Property, plant and equipment 7,9 283 558 148 749 Financial assets 10 15 164 3 272 Investment in subsidiaries 10 15 164 3 272 Interest in a joint venture 17 72 325 - Total financial assets 87 489 3 272 Total non-current assets 391 825 169 011 Current assets 391 825 169 011 Current assets 391 825 169 011 Current assets 3 70 254 35 184 Receivables 9,11,12 176 579 215 998 Receivables group companies 12 31 082 25 088 Other receivables 74 360 21 792 262 878 Cash and cash equivalents 13 186 061 120 297 Total current assets 538 336 418 359	Patents	7,9	6 500	8 000
Property, plant and equipment 7,9 283 558 148 749 Financial assets Investment in subsidiaries 10 15 164 3 272 Interest in a joint venture 17 72 325 - Total financial assets 87 489 3 272 Total financial assets 87 489 3 272 Total non-current assets 391 825 169 011 Current assets 391 825 169 011 Current assets 391 825 169 011 Current assets 3 70 254 35 184 Receivables 9,11,12 176 579 215 998 Receivables group companies 9,11,12 176 579 215 998 Other receivables 74 360 21 792 262 878 Zash and cash equivalents 13 186 061 120 297 Total current assets 538 336 418 359	Software, licenses etc.	7,9	14 278	8 990
Financial assetsInvestment in subsidiaries1015 1643 272Interest in a joint venture1772 325-Total financial assets87 4893 272Total non-current assets391 825169 011Current assets391 825169 011Current assets1015 1643 272Total non-current assets391 825169 011Current assets391 825169 011Current assets370 25435 184Receivables370 25435 184Receivables9,11,12176 579215 998Receivables group companies1231 08225 088Other receivables74 36021 792Total receivables282 021262 878Cash and cash equivalents13186 061120 297Total current assets538 336418 359	Total intangible assets		20 778	16 990
Investment in subsidiaries1015 1643 272Interest in a joint venture1772 325-Total financial assets87 4893 272Total non-current assets391 825169 011Current assetsInventories370 254Total inventories370 25435 184Receivables9,11,12176 579215 998Receivables9,11,12176 579215 998Receivables group companies1231 08225 088Other receivables74 36021 792Total receivables13186 061120 297Total current assets13186 061120 297	Property, plant and equipment	7,9	283 558	148 749
Interest in a joint venture1772 325-Total financial assets87 4893 272Total non-current assets391 825169 011Current assetsInventories370 254Total inventories370 25435 184Receivables9,11,12176 579215 998Receivables group companies1231 08225 088Other receivables74 36021 792Total receivables13186 061120 297Total current assets13186 061120 297Total current assets538 336418 359	Financial assets			
Total financial assets87 4893 272Total non-current assets391 825169 011Current assetsInventoriesInventories370 254Total inventories370 254Trade receivables9,11,12176 579Preceivables1231 082Other receivables74 36021 792Total receivables13186 061120 297Total current assets13186 061120 297	Investment in subsidiaries	10	15 164	3 272
Total non-current assets391 825169 011Current assets Inventories370 25435 184Receivables370 25435 184Receivables9,11,12176 579215 998Receivables group companies1231 08225 088Other receivables74 36021 792Total receivables13186 061120 297Total current assets538 336418 359	Interest in a joint venture	17	72 325	-
Current assets InventoriesTotal inventories370 25435 184Receivables370 25435 184Receivables9,11,12176 579215 998Receivables group companies1231 08225 088Other receivables74 36021 792Total receivables282 021262 878Cash and cash equivalents13186 061120 297Total current assets538 336418 359	Total financial assets		87 489	3 272
InventoriesTotal inventories370 25435 184ReceivablesTrade receivables9,11,12176 579215 998Receivables group companies1231 08225 088Other receivables74 36021 792Total receivables282 021262 878Cash and cash equivalents13186 061120 297Total current assets538 336418 359	Total non-current assets		391 825	169 011
Total inventories 3 70 254 35 184 Receivables 71,12 176 579 215 998 Trade receivables group companies 9,11,12 176 579 215 998 Other receivables group companies 12 31 082 25 088 Other receivables 74 360 21 792 Total receivables 282 021 262 878 Cash and cash equivalents 13 186 061 120 297 Total current assets 538 336 418 359	Current assets			
Receivables Trade receivables 9,11,12 176 579 215 998 Receivables group companies 12 31 082 25 088 Other receivables 74 360 21 792 Total receivables 282 021 262 878 Cash and cash equivalents 13 186 061 120 297 Total current assets 538 336 418 359	Inventories			
Trade receivables 9,11,12 176 579 215 998 Receivables group companies 12 31 082 25 088 Other receivables 74 360 21 792 Total receivables 282 021 262 878 Cash and cash equivalents 13 186 061 120 297 Total current assets 538 336 418 359	Total inventories	3	70 254	35 184
Receivables group companies1231 08225 088Other receivables74 36021 792Total receivables282 021262 878Cash and cash equivalents13186 061120 297Total current assets538 336418 359	Receivables			
Other receivables 74 360 21 792 Total receivables 282 021 262 878 Cash and cash equivalents 13 186 061 120 297 Total current assets 538 336 418 359	Trade receivables	9,11,12	176 579	215 998
Total receivables 282 021 262 878 Cash and cash equivalents 13 186 061 120 297 Total current assets 538 336 418 359	Receivables group companies	12	31 082	25 088
Cash and cash equivalents13186 061120 297Total current assets538 336418 359	Other receivables		74 360	21 792
Total current assets 538 336 418 359	Total receivables		282 021	262 878
	Cash and cash equivalents	13	186 061	120 297
Total assets 930 161 587 370	Total current assets		538 336	418 359
·······	Total assets		930 161	587 370

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Electromagnetic Geoservices ASA

EQUITY AND LIABILITIES As at December 31

Amounts in NOK 1 000	Note	2007	2006
	note	2007	2000
Equity			
Paid-in capital			
Share capital	14,15	18 546	16 470
Capital increase (under registration)	14,15	-	14 381
Other paid-in capital	14,15	17 950	9 890
Share premium	14,15	816 091	78 814
Total paid-in capital		852 587	119 555
Retained earnings			
Other equity (uncovered loss)	15,16	-261 183	9 384
Total retained earnings		-261 183	9 384
Total equity	·····-	591 404	128 939
Liabilities			
Provisions			
Pension liabilities	5	13 578	8 890
Total provisions	·····-	13 578	8 890
Other long-term liabilities			
Borrowings	7,9	5 757	149 000
Total other long-term liabilities	·····	5 757	149 000
Current liabilities			
Borrowings	9	62 902	70 468
Trade payable		153 233	128 801
Current tax liability	8	24 879	30 219
Public taxes and duties payable		33 783	16 803
Other current liabilities		44 625	24 226
Dividend		-	30 024
Total current liabilities	······	319 422	300 541
Total liabilities	<u> </u>	338 757	458 431
Total equity and liabilities	·······	930 161	587 370

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Electromagnetic Geoservices ASA

CASH FLOW STATEMENT January 1 - December 31

Amounts in NOK 1 000	2007	2006
A) Cash flow from operating activities		
Funds sourced from operations *)	-160 307	104 818
Changes in inventories, accounts receivable		
and accounts payable	22 787	-140 082
Changes in other accrual items	-15 845	8 259
Net cash flow from operating activites	-153 365	-27 005
B) Cash flow from investing activities		
Purchase of tangible fixed assets	-224 746	-89 061
Net purchase and proceeds from other investments	-11 892	-2 620
Joint venture	-72 325	-
Net cash flow from investing activities	-308 963	-91 681
C) Cash flow from financial activities		
Proceeds from debt raised (long- and short term)	8 995	185 745
Reduction of long term debt	-157 993	-12 443
Net change in bank overdraft	-17 311	-
Proceeds from equity paid-in	694 401	54 033
Net cash flow from financial activities	528 092	227 335
A+B+C) Net change in cash and cash equivalents	65 764	108 649
Cash and cash equivalents at 01.01	120 297	11 648
Cash and cash equivalents at 31.12	186 061	120 297
Calculation of cash and cash equivalents		
Cash and cash equivalents	180 110	116 850
Employee withholding taxes	5 951	3 447
Cash and cash equivalents at 31.12	186 061	120 297
*) Calculation of funds sourced from operations		
Net profit (loss) before income taxes	-258 749	78 644
Depreciation and amortisation	86 150	53 167
Income tax expense	-11 268	-35 440
Option cost	8 060	6 696
Loss on realisation of non-current assets	-	903
Calculated interest on convertible bonds	15 500	848
Funds sourced from operations	-160 307	104 818

NOTES

Electromagnetic Geoservices ASA (All amounts in NOK thousands unless otherwise stated)

····· Accounting principles

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

Use of estimates

The management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information on potential liabilities in accordance with generally accepted accounting principles in Norway.

Sales revenue

Sales revenues are recognised based on the percentage of completion method. Mobilisation fees are recognised over the acquisition period of the contract, representing the acquisition period of the geological information.

Current assets and current liabilities

Net current assets and current liabilites are comprised of accounts due within one year, and entries related to goods in circulation. Current assets are valued at the lower of acquisition cost and fair value. Current liabilities are recognised at nominal value.

Non-current assets and long-term liabilities

Non-current assets are comprised of assets held for permanent possession and use. The assets are valued at the cost of acquisition. Non-current assets are capitalised and depreciated over it's estimated useful economic life. Cost for maintenance are expensed as incurred, whereas costs for improving and upgrading are added to the acquisition cost and depreciated with the related asset. A write down to fair value will be carried out if the reduction in value is caused by

circumstances which may not be regarded as incidental, and deemed necessary by generally accepted accounting principles. Write downs will be reversed when the cause of the initial write down is no longer present. Long term-liabilities are recognised at nominal value less transaction costs.

Leased assets

Leases that provide EMGS with substantially all the rights and obligations of ownership are accounted for as finance leases. Such leases are valued at the present value of minimum lease payment, and recorded as assets under tangible assets. The liability is included in long-term debt. The assets are subsequently depreciated and the related liabilities are reduced by the amount of the lease payments less the effective interest expense. Other leases are accounted for as operating leases with lease payments recognised as an expense over the lease term.

Subsidiaries and investment in joint ventures

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

Foreign currency translation

Transactions in foreign currency are

translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into NOK using the exchange rate applicable on the balance sheet date. Non-monetary items that are measured at their historical price expressed in a foreign currency are translated into NOK using the exchange rate applicable on the transaction date. Non-monetary items that are measured at their fair value expressed in a foreign currency are translated at the exchange rate applicable on the balance sheet date. Changes to exchange rates are recognised in the income statement as they occur during the accounting period.

Research and development

Development costs are capitalised providing that a future economic benefit associated with development of the intangible asset can be established and costs can be measured reliably. Otherwise, the costs are expensed as incurred. Capitalised development costs are amortised linearly over its useful life. In 2006 EMGS did not have a system to monitor internal development costs, and these costs were expensed as incurred.

Research costs are expensed as they are incurred.

Inventories

Inventories are valued at the lower of cost or net selling price. The selling price is the estimated selling price in the case of ordinary operations minus the estimated completion, marketing and distribution costs. The cost is arrived at using the FIFO method and included the costs incurred in acquiring the goods and the costs of bringing the goods to their current state and location.

Trade and other receivables

Trade receivables and other current receivables are recorded in the balance sheet at nominal value less provisions for doubtful accounts. Provisions for doubtful accounts are based on an individual assessment of the different receivables.

Income tax

Tax expenses in the profit and loss accounts comprise of both tax payable for the accounting period and changes in deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax is calculated at 28 percent on the basis of existing temporary differences and the tax effect of tax losses carried forward. Temporary differences, both positive and negative, that will reverse within the same period, are recorded net. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilised. Taxes payable and deferred taxes are recognised directly in equity to the extent that they relate to equity transactions.

Pensions

Defined benefit plans are valued at the present value of accrued future pension benefits at the balance sheet date. Pension plan assets are valued at their fair value.

Changes in the pension obligations due to changes in pension plans are recognised over the estimated average remaining service period. The accumulated effect of changes in estimates and in financial and actuarial assumptions (actuarial gains and losses) that is less than 10% of the higher of defined benefit pension obligation and pension plan assets at the beginning of the year is not recognised. When the accumulated effect is above 10%, the excess amount is recognised in the income statement over the estimated average remaining service period. The net pension cost for the period is classified as employee expense.

Share based payments

Options for employees are valued at the fair value of the option at the time the option plan is adopted. The Black -Scholes model is used for valuation of options. The cost of the options is allocated over the period during which the employees earn the right to receive the option. This arrangement is reported as other paid-in capital in the balance sheet. Provisions are made for the employers national insurance contributions in connection with share option plan, which are related to the difference between the issue price and the market price of the share at year-end, on the basis of the vesting period of the program.

Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other-short term investments.

•••••• Note 1 CONTRACT SALES

Geographical distribution					
Amounts in NOK 1 000	2007	2006			
Norway	268 887	149 254			
Other countries	488 139	603 429			
Total	757 026	752 683			

The Company consists of one business area only. EMGS operates globally.

Note 2 GOVERNMENT GRANTS

In 2007 the Company received grants of 900 from the Norwegian Research Council. The grant is set off against the relevant expenses.

Note 3

Inventory type

Amounts in NOK 1 000	2007	2006
Equipment, components and parts	47 255	25 051
Anchors and batteries	7 756	4 149
Fuel	15 243	5 984
Total	70 254	35 184

••••• Note 4

OPERATING LEASES

Operating leases recognised as expense in the period:

Amounts in NOK 1 000	2007	2006
Charter hire	226 409	162 785
Office premises	4 717	3 448
Total	231 126	166 233

•••••• Note 5 PENSIONS

The Company is required to have an occupational pension scheme in accordance with Norwegian law on required occupational pension. The Company's pension scheme meets the requirements of that law.

The pension scheme gives the right to defined future payments, which are mainly dependent on: number of years of employment, salary level at time of retirement and the amount of payment from the National Insurance office. The obligations are covered through an assurance company.

The actuarial assumptions are based on assumptions normally applied within the assurance industry.

	2007	2006
Number of employees included in the defined benefit plan	188	113
Amounts in NOK 1 000	2007	2006
Accrued pension obligations at 31.12	18 555	10 862
Estimated effect of future salary increase	22 085	11 078
Estimated pension obligations at 31.12	40 640	21 939
Fair value of plan assets	-19 917	-10 311
Actuarial losses/(gains)	-8 823	-3 836
Social security tax	1 678	1 099
Net pension obligations	13 578	8 890

Financials

Amounts in NOK 1 000	2007	2006
Current service cost	12 456	7 952
Interest cost	954	498
Expected return on plan assets	-788	-383
Administration fee	192	125
Amortisation of actuarial (gain)/loss	61	33

Principal assumptions:

Social security tax

Benefit expense

	2007	2006
Discount rate	4,70 %	4,35 %
Expected rate of return on pension plan assets	5,75 %	5,40 %
Expected future salary increases	4,50 %	4,50 %
Expected adjustment in National Insurance base rate	4,25 %	4,25 %
Expected rate of pension increases	4,25 %	1,70 %
Social security tax	14,10 %	14,10 %

••••• Note 6

REMUNERATION

The average number of employees during 2007 was 168.

Wage costs

Amounts in NOK 1 000	2007	2006
Salaries	135 499	77 417
Payroll tax	24 876	9 169
Pension costs	14 690	9 385
Other payments	14 959	4 273
Total	190 024	100 244

Management remuneration for the emgs Group

Management

Amounts in NOK 1 000	Salaries	Bonus	Share options	Pension benefit	Other benefits	Total renumeration
Terje Eidesmo, President & CEO	2 192	715	1 346	127	124	4 504
Roar Bekker, COO*	296	900	-	-	2	1 198
Svein Knudsen, CFO	1 398	481	858	123	124	2 984
Odd Tjelta, Vice President Global Sales	1 106	370	277	132	69	1 954
Svein Ellingsrud, CTO	1 325	444	544	140	95	2 548
Ståle E. Johansen, Vice President Geology & Geophysics	1 122	392	404	140	67	2 125
Erik Skogen, Vice President Operations	1 233	366	286	114	69	2 068
Ken Feather, Vice President Marketing	1 240	444	123	-	668	2 475
Jørn Erik Hausmann, Vice President QHSE	710	177	52	121	16	1 076
Jo S. Temre, Senior Vice President Administration	945	349	137	140	69	1 640
Mark J. Wilkinson, President emgs Americas	1 348	492	336	190	141	2 507
Andres Lozano, President emgs Asia Pacific Sdn. Bhd**	890	242	24	-	127	1 283
Thomas Sjøberg, President emgs Asia Pacific Sdn. Bhd***	102	-	52	-	7	161

* Was employed November 1, 2007

** Was employed as President emgs Asia Pacific Sdn. Bhd until October 31, 2007

*** Was employed as President emgs Asia Pacific Sdn. Bhd from October 31, 2007

Introduction EMGS technology Customer core

1 815

14 690

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1 160

Payment after termination of employment

The President is entiltled to 2 years of pay after termination of contract, while the other members of the Management, except for Vice President QHSE and President emgs Asia Pacific Sdn. Bhd, are entitled to 1 year pay.

Remuneration policy:

All members of the Management Group, including the President, have fixed salaries. In addition to the fixed salary, a bonus plan is in place. The bonus system is based on a combination of fulfillment of EMGS' goals and the individual goals. There are also car allowance agreements in place for most of the Management Group and the Group is included in the Company's ordinary pension plan. The policy will be further developed along these lines in 2008.

There are no other variable elements included in the remuneration for the Management Group.

Board	of Dire	ctors
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Amounts in NOK 1 000	Directors' fee	Share options
Bjarte Bruheim, Chairman of the Board	4 110	1 404
David Kieger, Director	-	-
Jeffrey Harris, Director	-	-
Christian Beck, Director*	161	11
Christopher Wright, Director	176	11
Trine S. Romuld, Director**	132	-
Grete Høiland, Director***	15	-
Berit Svendsen, Director***	15	-
Bjørn Rosvoll, Employee's representative	-	-
Jens Danielsen, Employee's representative	-	-

The amounts listed under Directors' fee have been expensed in 2007.

* Member of the Board until November 30, 2007 **Member of the Board from April 1, 2007 ***Member of the Board from December 1, 2007

Payment after termination

The Chairman of the Board is entiltled to 1 year of pay after termination of contract.

Share based payment

The Company has an option program for key personnel (please find more details about the program in the notes for the Group). The Company uses Black-Scholes model to estimate the value of the options.

Management	Number of options OB	Granted options	Forfeited options	Exercised options	Weighted average exercise price -A	Number of options CB	Weighted average exercise price -B	Weighted average remaining contractual life
Eidesmo,Terje	450 000	-	-	-	-	450 000	19,3	4,9
Tjelta, Odd	120 000	-	-	10 000	26,0	110 000	16,4	4,4
Ellingsrud, Svein	200 000	-	-	90 000	17,6	110 000	19,2	4,9
Johansen, Ståle E.	145 000	-	-	65 000	17,9	80 000	19,4	4,9
Skogen, Erik	150 000	-	-	-	-	150 000	16,0	4,3
Knudsen, Svein Tore	270 000	-	-	70 000	17,4	200 000	20,0	5,1
Wilkinson, Mark J.	250 000	-	-	130 000	9,9	120 000	16,0	4,6
Lozano, Andres	50 000	-	-	30 000	8,5	20 000	11,0	4,3
Sjøberg, Thomas	10 000	-	-	4 000	26,0	6 000	26,0	5,9
Hausmann, Jørn Erik	10 000	-	-	-	-	10 000	26,0	5,9
Feather, Ken	200 000	-	-	53 000	7,3	147 000	10,3	4,8
Temre, Jo	55 000	-	-	25 000	17,0	30 000	18,5	4,7
Board								
Bruheim, Bjarte	660 000	-	-	305 000	15,9	355 000	17,3	4,5
Beck, Christian	40 000	-	-	20 000	11,0	20 000	11,0	3,5
Wright, Christopher Allan	40 000	-	-	-	-	40 000	11,0	3,5

A - average exercise price for options exercised during 2007 in NOK.

B - average exercise price for number of options by December 31, 2007 in NOK.

EMGS technology Customer cases Financials

Loans and guarantees

No loans or loan guarantees have been granted to the Management or the Board or other related parties.

Auditor expenses

Amounts in NOK 1 000	2007	2006
Statutory audit services (excl VAT)	2 637	1 083
Tax advisory services (excl VAT)	-	154
Further assurance services	-	159
Other non-audit services	4 348	1 083
Total	6 985	2 479

Other non-audit services in 2007 consist mainly of services provided in connection with IPO and conversion to IFRS.

••••• Note 7

TANGIBLE AND INTANGIBLE ASSETS

Amounts in NOK 1 000	Property, plant and equipment	Patents	Software, licenses etc.	Total
Accumulated cost at 01.01.07	259 719	15 000	11 685	286 404
Additions	214 753	-	9 995	224 748
Accumulated cost 31.12.07	474 472	15 000	21 680	511 152
Accumulated depreciation 01.01.07	110 971	7 000	2 695	120 666
Depreciation/amortisation for the year	79 945	1 500	4 705	86 150
Accumulated depreciation 31.12.07	190 916	8 500	7 401	206 816
Net book amount at 31.12.07	283 558	6 500	14 278	304 335
Depreciation rate (%)	20-33	10	33	
	3-5 years	10 years	3 years	

Depreciation/amortisation of fixed assets is calculated using the straight-line method. The registered patents rights relates to Sea Bed Logging (SBL).

Addition of self developed assets in 2007 amounted to 70 519 (2006:20 854)

Finance leases are capitalised at the lease's commencement at the lower of the present value and cost. The leasing contract has a duration of 3 years and the asset will be depreciated over a 3-5 year period. The terms of the agreements are 3 months NIBOR retroactive + 1% point.

Finance leases in the balance sheet as of December 31

Accumulated cost		41 579
Accumulated depreciation	-15 044	-15 114
Net book amount	20 529	26 465
Depreciation	8 680	9 756

	2007	7	2006	
Amounts in NOK 1 000	Nominal value	Present value	Nominal value	Present value
Leases due within 12 months	9 848	9 745	16 136	15 266
Leases due within the next 13 - 60 months	6 585	5 763	10 682	9 578
Remaining debt on leasing contracts 31.12	16 433	15 508	26 818	24 844

Specification of R&D expenses

Amounts in NOK 1 000	2007	2006
External expenses	5 616	1 477
Materials	5 013	13 192
Internal time	9 095	19 449
Research grants	-10 531	-4 206
Total R&D expenses	9 193	29 912

The expenses are related to the further development of the SBL-technology and have been expensed as incurred.

••••• Note 8 INCOME TAXES

- - - - -

Tax base specification

Amounts in NOK 1 000	2007	2006
Profit before tax	-258 749	78 644
Permanent differences	-46 094	7 375
Changes in temporary differences	22 832	-18 453
Tax expense abroad, paid	-11 851	-5 147
Taxable profits before utilisation of unused tax losses	-293 862	62 419
Tax losses carry forward	293 862	-62 419
Taxable profit (this year tax base)	-	-

Income tax expenses

Total income tax expense	11 268	35 440
Deferred taxes		-
Non-creditable foreign income taxes	11 268	35 440
Amounts in NOK 1 000	2007	2006

Temporary differences

Amounts in NOK 1 000	2007	2006
Fixed assets	-24 669	-26 813
Accounts receivable	-25 242	-
Provisions tax liability abroad	-24 879	-30 293
Pension obligations	-13 959	-8 891
Tax losses carry forward	-370 619	-76 677
Total	-459 367	-142 674
Non-recognised deferred tax asset	-128 623	-39 949

Explanation why the tax is not 28% of income before tax

Amounts in NOK 1 000	Tax base	28 % tax
28% tax of income before tax	-258 749	-72 450
Permanent difference		-12 906
Other permanent differences (foreign income tax)		-3 318
Change in deferred tax assets, not recognised		88 674
Non-creditable foreign income taxes		11 268
Calculated tax		11 268

Tax loss carryforward

Amounts in NOK 1 000	Amount	Applied	Rest
2002	29 285	29 285	-
2003	6 332	6 332	-
2004	80 381	26 802	53 579
2005	23 099	-	23 099
2007	293 862	-	293 862
Total	432 958	62 419	370 539

Unused tax losses can be carried forward indefinitely.

••••• Note 9 COLLATERALS

Long-term liabilities due in more than five years from 31.12.07 are 0.

Collaterals		
Amounts in NOK 1 000	2007	2006
Debts secured by pledge	68 659	95 457

The debt is a credit facility with due date in June 2008, terms are NIBOR 7 days + 1% p.a.

Pledged assets

Amounts in NOK 1 000	2007	2006
Accounts receivable	176 579	215 998
Leasing	12 905	9 733
Cluster	2 603	10 482
REM		6 250
Patents	6 500	8 000
Total carrying value of pledged assets	198 587	250 463

The pledge is established as security for an unutilised credit facility. As per 31.12.2007 the total pledge is 12 907.

INVESTMENT IN SUBSIDIARIES

Company				
Amounts in NOK 1 000	Share ownership/ Voting rights	Profit/Loss 2007	Equity 31.12.07	Location
emgs Americas 1 AS	100 %	-1	120	Trondheim, Norway
emgs Americas 2 AS	100 %	-1	120	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	-4	120	Trondheim, Norway
Serv. Geologicos Electromagneticos Do Brazil LTDA	100 %	11 873	13 599	Rio de Janeiro, Brazil
Global emgs Nigeria Ltd	35 %	-	66	Lagos, Nigeria
emgs Americas LP	100 %	-481	-	Delaware, USA
emgs Malaysia Sdn Bhd	49 %	1 700	87	Kuala Lumpur, Malaysia
emgs Asia Pacific Sdn Bhd	100 %	19 277	856	Kuala Lumpur, Malaysia
emgs International BV	100 %	-129	197	Amsterdam, Holland
emgs Australia Pty Ltd	100 %	99	-	Perth, Australia
Total		32 333	15 164	

••••• Note 11

ON-GOING PROJECTS

Part of accounts receivable which is recognised in 2007, but not invoiced per 31.12.07 amounts to 33 793. Deferred revenue, not invoiced per 31.12.07 amounts to 0.

The Company does not expect any loss on contracts in 2007.

Note 12 RECEIVABLES

There has been made provision for doubtful receivables per 31.12.07 of 25 242.

The Company has no accounts receivables with due date later than 12 months.

Intercompany balances with group companies

Amounts in NOK 1 000	2007	2006
Trade receivables	-	16 656
Other receivables	31 082	25 088
Total intercompany receivables	31 082	41 744
Short term liabilities	-	-
Total intercompany liabilities	-	-



Restricted cash related to employee tax was 5 951 as of 31.12.07.

••••• Note 14

SHARE CAPITAL AND SHAREHOLDER INFORMATION

The Company's share capital consists of 74 186 773 shares at a par value of NOK 0,25, giving a total share capital of 18 547.

Number of shares, shareholders

Shares per 31.12.2007	Number of ordinary shares	Percentages
Warburg Pincus Investments	46 307 012	62.42%
State street bank & trust & Co	4 037 111	5.44 %
Morgan Stanley & Co. Inc.	2 290 290	3.09 %
USB AG, London Branch	2 073 578	2.80 %
JP Morgan Chase bank	1 754 500	2.36 %
Bruheim Bjart Henry	1 715 302	2.31 %
Eidsmo, Terje	854 214	1.15 %
Ellingsrud, Svein	840 214	1.13 %
JP Morgan Chase bank	660 200	0.89 %
Mellon Bank AS	627 125	0.85 %
Johansen, Ståle	576 214	0.78 %
Skogen, Erik	472 881	0.64 %
Strack, Kurt Martin	420 088	0.57 %
Storebrand Livsforsikring AS	385 770	0.52 %
Fortis Bank Luxemburg S.A	269 417	0.36 %
Citibank N. A:	255 350	0.34 %
Bank of New York, Brussel branch	250 000	0.34 %
Verdipapirfondet KLP Aksjenorge	250 000	0.34 %
Bank of New York (Luxembourg)	220 248	0.30 %
Skeie Capital Investment AS	220 000	0.30 %
Others	9 706 959	13.08 %
Total	74 186 773	100.00%

Leading representatives of the Company hold the following shares

	Shares
President	854 214
Board of Directors	1 856 815

••••• Note 15 EQUITY

Equity 31.12.2007	18 546	-	-	-	816 091	17 950	-	-	-261 183	591 404
Net income (loss) for the year	-	-	-	-	-	-	-	-	-270 017	-270 017
interest in joint venture		-	-	-		-	-	27 078	-550	26 528
Use of shares for consideration acquired									*****	
Purchase of own shares	-	-	-	-	-	-	-	-27 078	-	-27 078
Proceeds from shares issued - IPO	1 375	-	-	-	685 844	-	-	-	-	687 218
Proceeds from options exercised	234	-	-	-	14 750					14 984
Capital inc with payment from dividends	42	-	-	-	22 727	-		-	_	22 768
Share based payment		-	-	-	-	8 060		-	-	8 060
Conversion of prf. shares to ord shares	6 240	-1 577	-3 176	-1 487	-	-		-	-	-
Shares registered	425	-	-	-	13 956	-	-14 381	-	-	-
Equity 01.01.07	10 230	1 577	3 176	1 487	78 814	9 890	14 381	-	9 3 8 4	128 939
Amounts in NOK 1 000	capital	class A	class B	class B	premium	in capital	(not registered)		(uncovered loss)	Total
	Share	Shares	Shares	Shares	Share	Other paid-	Capital increase	Own	Other equity	

••••• Note 16

FINANCIAL ITEMS

Financial income

Amounts in NOK 1 000	2007	2006
Interest income on short term bank deposits	17 945	1 019
Foreign exchange rate gains	40 686	12 981
Total financial income	58 631	14 000

Financial expenses		
Amounts in NOK 1 000	2007	2006
Interest expense	22 715	10 557
Foreign exchange rate losses	98 211	790
Other financial expenses	20	21 952
Other financial expenses Total financial expenses	120 946	33 299
Net financial loss	-62 315	-19 299

••••• Note 17 INTEREST IN A JOINT VENTURE

On December 14, 2007, the Company acquired 50% of the voting shares of KJT Inc, an unlisted company based in the USA. The KJT technology offers an alternative to the EMGS' proprietary methodologies in shallow water applications. KJT's technology is a significant new development since emgs invented the EM industry. Through the acquisition of KJT, EMGS improves the mix of products that it can offer to its clients.

The following share of fair value of the identifiable assets and liabilities of KJT Inc as at the date of acquisition is based on a preliminary allocation of the purchase price:

Amounts in NOK 1 000	2007
Cash and cash equivalents	4 053
Trade receivables	1 293
Other receivables	114
Total assets	5 460
Trade payables	195
Other short term liabilities	3 788
Total liabilities	3 982
Net assets	1 477
Goodwill arising on acquisition	70 848
Total consideration	72 325

The total cost of EMGS' interest in the joint venture was 72 325 and comprised an issue of shares of 29 723 (26 528 paid in 2007, the remaining is paid in 2008), cash of 38 476 and costs directly attributable to the acquisition of 4 126. EMGS issued 648 984 ordinary shares with a fair value of NOK 45.8 each, being the published price of the shares of EMGS ASA at December 14.

The goodwill of 70 848 comprises the fair value of expected synergies arising from the acquisition. The allocation of the purchase price is preliminary based on that the acquisition was done late in 2007 and EMGS has limited experience with the technology acquired.

Total profit for the year of KJT in 2007 was 616 and equity as of 31.12.07 was 2 959.

Trondheim, March 27 2008

Bjarte H. Bruheim Chairman of the Board

Christopher Alan Wright

laud malle

Grethe Høiland

alos

Terje Eidsmo CEO

Trine S Romuld

David Benjamin Krieger

Bjørn Henry Rossvoll

Bent Sundsen

Berit Svendsen

Jeffrey Alan Harris

Jens Ensted Danielsen

EMGS technolog Customer case Financial inancials

AUDITOR'S REPORT FOR 2007

To the Annual Shareholders' Meeting of ElectroMagnetic GeoServices ASA

We have audited the annual financial statements of ElectroMagnetic GeoServices ASA as of 31 December 2007, showing a loss of NOK 270,017,000 for the Parent Company and a loss of USD 30,925,000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement of equity and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the Parent Company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

the financial statements of the Parent Company are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company as of 31 December 2007, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway

••••• the financial statements of the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU

the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway

the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with law and regulations.

Oslo, 27 March 2008 ERNST & YOUNG AS

Arne Dale

State Authorised Public Accountant (Norway) (sign.)

Note: The translation to English has been prepared for information purposes only.

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