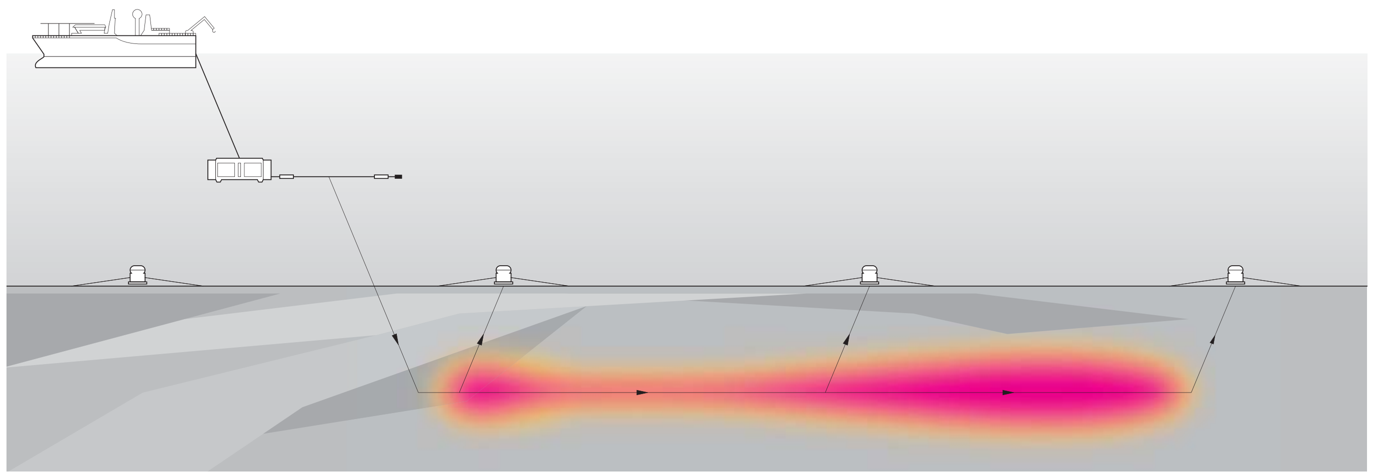
EMGS ANNUAL REPORT 2008

emgs

BELOW

A high power electromagnetic (EM) source is towed by a survey vessel. Sensitive seafloor receivers detect EM energy that has been guided by electrically resistive bodies in the subsurface, including hydrocarbon reservoirs. This data is processed to create resistivity maps and 3D volumes. High resistivity is an indicator of hydrocarbon presence.



Contents

An overview

EMGS uses its proprietary electromagnetic (EM) technology to support oil and gas companies in their search for offshore hydrocarbons. The company is the EM market leader and provides Clearplay, the world's first fully integrated EM system.

EMGS operates the world's largest EM survey vessel fleet and has conducted more than 400 surveys.

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.

Global experience

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.

EMGS' patented EM technology has the ability to reveal information about the subsurface that directly relates to hydrocarbon presence. In working with this technology around the globe – over 400 surveys for more than 40 leading operators – EMGS has acquired unmatched knowledge and experience.

Clients

The majority of leading oil and gas companies use EMGS as their provider of EM services. Our clients include Shell, ExxonMobil, PEMEX, StatoilHydro, ONGC and Petronas. We are also the preferred research and development partner for several major companies.

THIS PAGE

Aurora - the most powerful computer cluster in the industry

Vessels and equipment

Our EM fleet is equipped with the world's the most sophisticated EM source and receivers, and our first-rate crews have extensive experience of EM operations. We have the most powerful computer cluster in the industry – Aurora.

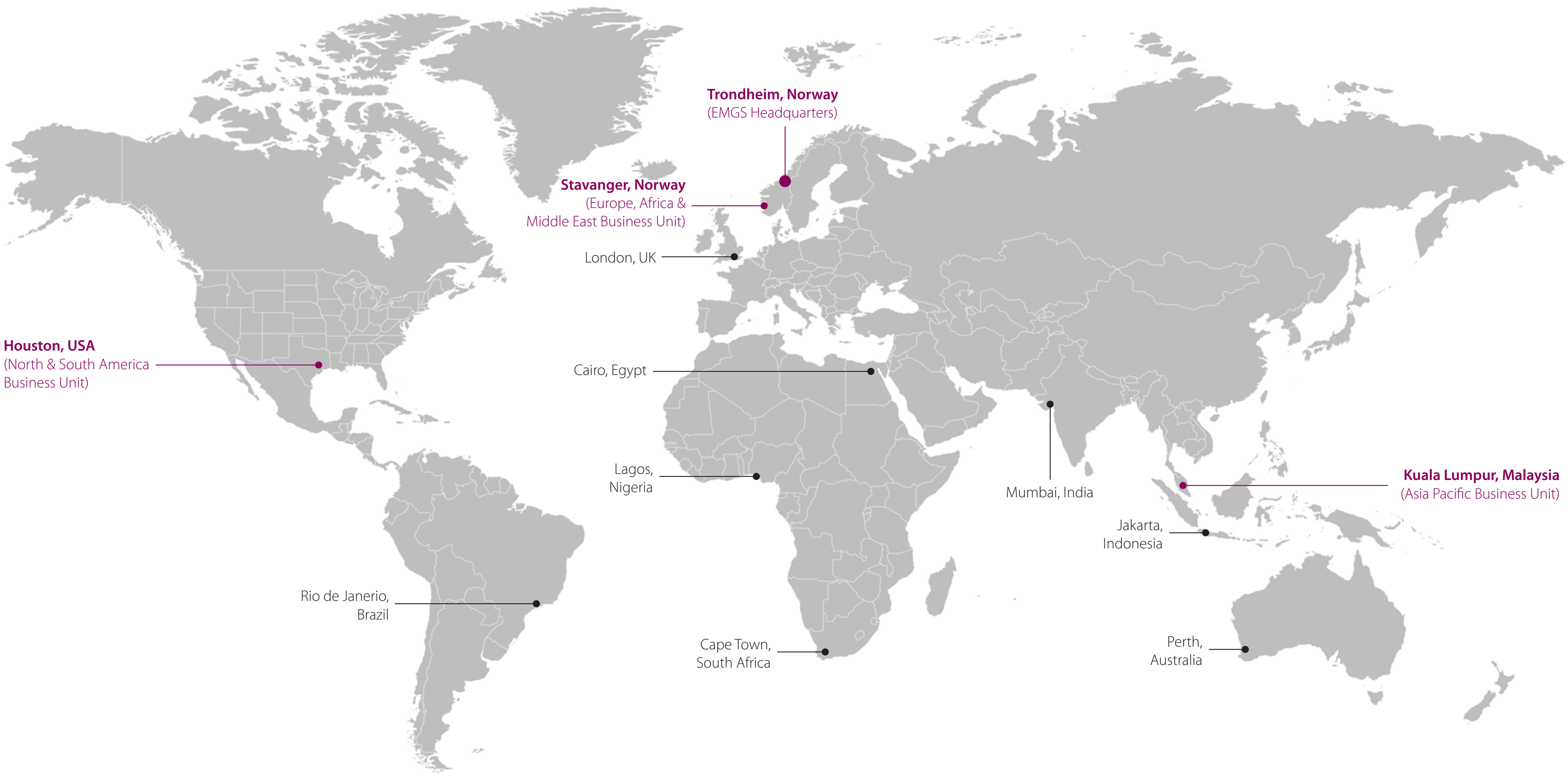
People

Our employees are dedicated to helping operators improve their exploration performance and increasing the likelihood of finding offshore hydrocarbons. Our workforce includes survey personnel, geoscientists, physicists and software engineers.

QHSE

Quality, health, safety and environment standards are fundamental to all that we do. Every individual at EMGS, whatever their responsibilities, is trained to understand the importance of QHSE and to take personal responsibility for it. Policies and targets for minimising wastage, reducing power use and recycling exist in all areas of the company. Our high power towed source is designed, and proven, to have no adverse impact on marine life. Even the anchors we use to keep our receivers in place are made from an eco-friendly compound – dissolving harmlessly in the months after the receivers are lifted.

Global presence



EMGS operates in the global oil and gas market. It is critical the EMGS matches its current and potential clients' requirements.

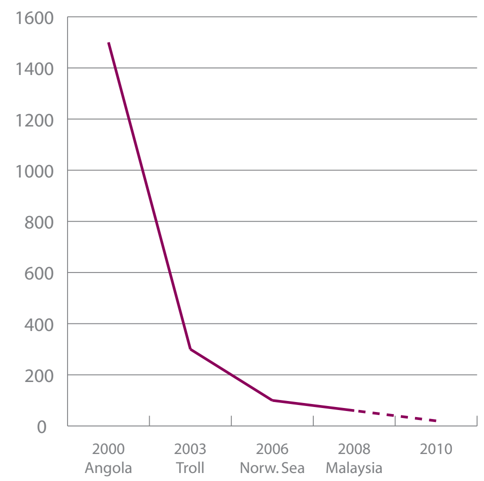
To this end, EMGS continues to build up a strong local presence through its own offices as well as local representation through agents and partners. This ensures close contact with our clients and efficient mobilisation. EMGS's main office is in Trondheim, Norway with subsidiaries in:

- 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)

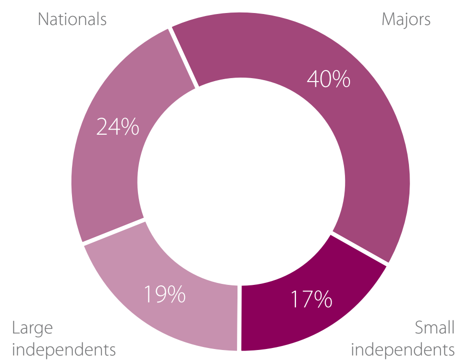
We also have offices and representatives in:
Oslo (Norway), London (UK), Rio de Janeiro (Brazil), Mumbai (India), Cairo (Egypt), Perth (Australia), Lagos (Nigeria), Cape Town (South Africa), Jakarta (Indonesia)

Our vessels operate throughout the world.

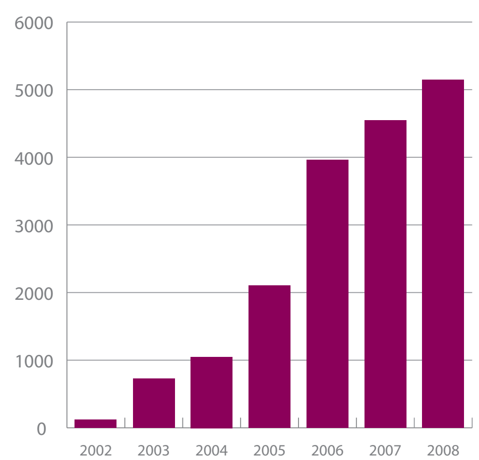
Water depth development (in metres)



Revenue by client type 2008



Number of receiver drops



Letter from the CEO

We have several major achievements in 2008 to look back on, and I would especially like to highlight the following: a breakthrough for the multi-client business model and 3D surveying; substantially increased survey efficiency; and the launch of the world's first purpose-built EM survey vessel.

However, industry adoption of EM technology has been slower than we had hoped, as reflected in our revenues which came in at USD 116 million, down from USD 140 million in 2007. The EM market did not grow as we expected. This, coupled with the turmoil in the financial markets, led us to utilise the flexibility in our business model. We reduced our vessel fleet from five to three vessels, cut the size of our organisation and realigned our costs accordingly. We implemented an aggressive cost-cutting programme and scaled back our capital expenditure.

At the same time, we have strengthened our technological position and our role as the undisputed EM market leader. We have introduced products and implemented measures in 2008 that will make it much easier for our customers to adopt our technology on a large scale.

We took a major step into the 3D world, and more and more of our customers are now turning to 3D EM surveys. This is a crucial element in support of industry adoption, as 3D EM data can be more easily integrated into the exploration and production workflow, and can be interpreted alongside seismic and well data. Our 3D acquisition and processing services now account for almost 70% of our revenues.

EMGS and Blueback Reservoir collaborated to develop and launch a new decision-support tool for exploration professionals called Bridge. This new software enables the integration of EM data with other geophysical and geological information to make EM data more available. Bridge has proved to be an important tool in building industry understanding and recognition; many customers have said that this is exactly what they have been waiting for, as it will help them integrate our data into their workflows.

Increased survey capacity per vessel and improved operational efficiency were other major accomplishments in 2008. As I have just mentioned, we have seen a shift towards larger grid-based 3D surveys, and these require the deployment of more active receivers. We have increased the number of receivers on each vessel, which is also a key enabler for improved survey capacity.

The new, purpose-built vessel Boa Thalassa, which we launched in mid-December, will lead the way in efficient 3D EM surveying, with its threefold increase in receiver capacity. Our fleet efficiency is further supported by substantially reduced technical downtime, and our overall fleet productivity was improved by 35% from 2007 to 2008.

Our shallow-water capabilities have been developed and this has broadened our market reach, as many hydrocarbon opportunities remain in shallow-water basins across the world. EMGS can now perform surveys at virtually any depth.

Another of our major achievements this year was the Barents Sea multi-client project – the largest of its kind in the world. The survey area, at more than 9000 km^2 and covering 30 blocks, included all the Barents Sea acreage in the 20th Exploration Licensing Round in Norway. It was an operational success in terms of data acquisition, processing and interpretation. Furthermore, it represented a breakthrough for the multi-client business model, which will be important for EMGS in the years to come.

Organisationally, we have been implementing a strategy to strengthen our global organisation and presence to ensure that we are closer to our customers by building our sales infrastructure and running a cost-efficient operation with a strong commercial orientation.

EMGS also undertook a fully underwritten share capital increase of NOK 250 million, in the form of a rights issue, to strengthen its working capital position and support long-term development.

StatoilHydro funded a survey on the Troll field that gave us the opportunity to test various new EM technologies on a producing field and enabled us to calibrate our EM technology with detailed seismic and well log data.

The Troll data is an important supplement to our showcase portfolio that we use to demonstrate the value and range of our services and products.

I am confident that we can build on the achievements of 2008 and move the EM industry and EMGS forward.

Yours sincerely,

Roar Bekker.
Acting chief executive officer

Our employees are dedicated to helping operators improve their exploration performance and increasing the likelihood of finding offshore hydrocarbons. Our workforce includes survey personnel, geoscientists, physicists and software engineers.

Clearplay – Integrated EM system

	Raw data	Fast track	EM imaging	Integrated imaging	Target imaging
Clearplay Find	Sparse grid				
Clearplay Test	2D line(s), grids	Basic attributes	EM resistivity model	Integrated structure – resistivity model	Minimum and maximum target models
Clearplay Evaluate	Dense grids				

Integrated EM system

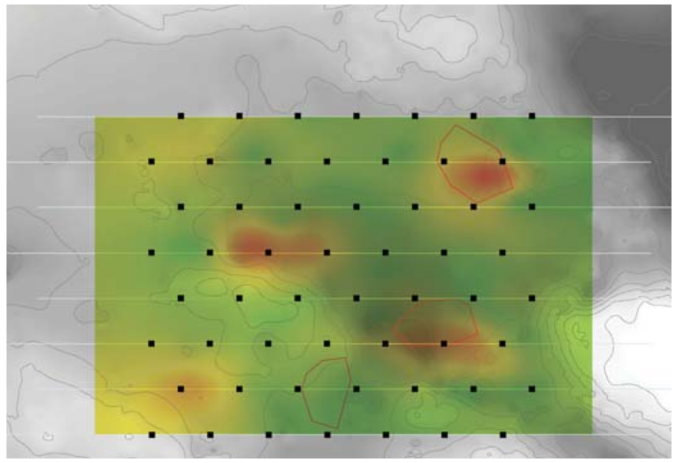
Each carefully-tailored service provides the combination of EM technology, products, tools and expertise needed to achieve best fit with task – yet is flexible enough to permit condition-specific adjustment. Feasibility studies provide the bedrock for customer confidence in the service outcome. They deliver early stage information to enable a go/no-go decision, advanced modelling to determine survey parameters and full virtual surveys to inform survey design.

Clearplay Find – rapid lead generation

Aptly referred to as 'scanning', this service provides rapid generation of leads and, ultimately, prospects over large areas. It can also validate existing leads and prospects.

EM data resulting from Clearplay Find is rapidly obtained and provides good, early indications of hydrocarbons and prospectivity. This informs pre-licensing decision-making and permits rapid generation of prospect portfolios. This early delivery of quality leads gives our customers a competitive advantage. Overall exploration efficiency is improved and risk is reduced. Combining the EM data with seismic and other geological and geophysical information allows assessment of new blocks to be achieved faster and more accurately than with traditional techniques alone. If already exploring a new block, Clearplay Find data enables more detailed EM and seismic surveys to be targeted at the areas identified as more likely to have accumulations of hydrocarbons.

Typically, this service will involve acquiring data by towing a high power EM source over a coarse grid of receivers, 2-4 km apart, and the subsequent, rapid processing of that data on board the survey vessel. It will be employed in early-stage exploration, pre or post licensing, but can also be used to re-explore mature areas.



Traditional exploration methods seek evidence for the geological conditions necessary to support the existence of hydrocarbons. The electrical resistivity data acquired by EM scanning can provide direct evidence of hydrocarbons. Though not all resistive bodies are hydrocarbons, all commercial hydrocarbon deposits are resistors. So, locating the resistors within a scanned area provides the leads needed to focus exploration effort. Clearplay Find offers the display of EM data as 2D anomaly maps and 3D cubes.

Clearplay Test – accelerated prospect delivery, improved discovery rates

This service provides rapid, more accurate ranking of prospects in offshore locations, significantly reducing the likelihood of drilling dry wells.

Operators are able to achieve a better discovery rate, more rapidly, with the same or fewer resources than when using traditional methods alone. A reduced likelihood of drilling dry wells means reduced commercial risk.

Typically, a prospect will be targeted by towing the EM source over receivers placed in one, or more, lines or a grid, 1-2 kilometres apart. There are two possible outcomes from Clearplay Test. These are equally useful to operators as both contribute to increasing the discovery rate. A favourable test result indicates a much improved chance of success when drilling. A less favourable result allows prospects to be downgraded or abandoned.

Clearplay Test offers several useful visualisations of the processed data. If the survey lines or grid have been extended beyond the edge of the identified prospect, the lateral extent of the prospect can be confirmed. Presenting resistivity data as vertical sections of the earth shows the burial depth of the prospect. Combining this data with other geophysical information can provide an improved estimation of the total hydrocarbons volume.

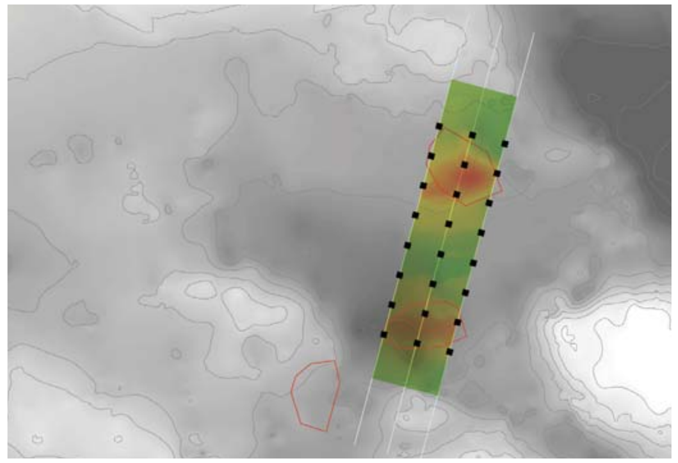
Without EM testing, using only traditional approaches, the average discovery rate is just 25%. Customers who routinely EM test prospects before drilling achieve higher success rates.

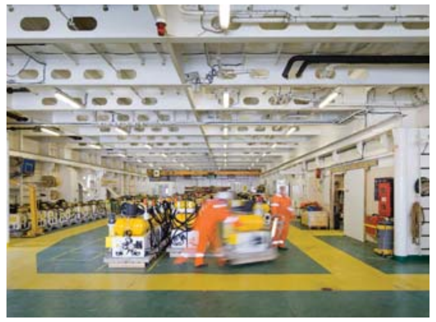
Clearplay Evaluate – quantifying reserves, reducing economic risk

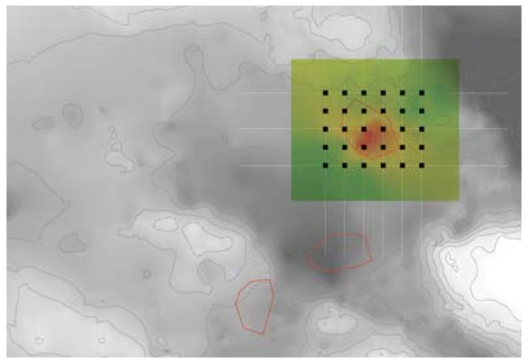
The service improves certainty and efficiency in appraisal and development phase decision-making. It improves the assessment of a reservoir's potential following successful discovery well drilling. Clearplay Evaluate data, integrated with information available from other sources, such as 3D seismic, will significantly improve the speed and accuracy of prospect appraisal, giving a more informed assessment of hydrocarbon volumes and distribution within a prospect. It has the potential to reduce the number of appraisal wells drilled, producing significant cost savings.

Typically the data is acquired by towing the EM source over and between the lines of a dense grid of receivers, 0.5-1.5 km apart. The quantity and quality of the information this generates, including 3D azimuthal data, enables the most sophisticated data processing and visualisations to be used and increases the accuracy of the results.

When combined with 3D seismic, geological models and appraisal well data, the outcome of this service is an improved estimation of the volume and distribution of hydrocarbons present within the prospect. These factors enable operators to establish, with greater certainty, whether the prospect contains commercially viable reserves. Clearplay Evaluate offers visualisation of the acquired data as 3D images revealing quantitative resistivity vs depth. This information is an indicator of the distribution and saturation levels of hydrocarbons within the prospect.







OPPOSITE PAGE

This 2D anomaly map shows a widely-spaced receiver grid. The four red areas indicate the zones of high resistivity in the subsurface and will be treated as EM leads. The three orange polygons indicate leads identified by seismic surveys.

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EMGS Product Service Offerings.

This example shows the use of three survey lines, which extend beyond the expected limits of a prospect. Clearplay Test reveals more detailed resistivity information than possible with Clearplay Find and helps define the lateral extent of the prospect with more certainty.

Careful preparation of receivers before and after deployment is normal EMGS quality control procedure.

This example map shows a high denisity grid, typically with receivers spaced 0.5–1.5 km apart above the target prospect.

BOA Thalassa

High-capacity vessel

The world's first purpose-built EM survey vessel, the BOA Thalassa, was launched in December 2008. This high-capacity vessel is a product of more than a decade of experience from more than 400 surveys and 120 vessel months across the world's mature and frontier offshore basins.

New-generation technology

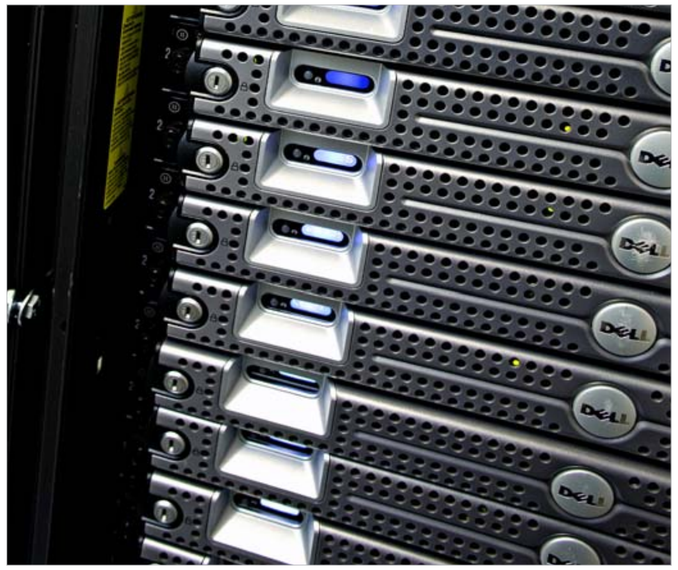
The Boa Thalassa will lead the way in a new-generation technology - 3D EM surveying. The vessel's survey capacity is substantially increased by its ability to handle a record number of receivers – the BOA Thalassa carries 100 receivers and can double this figure. Not only does this enable EMGS to perform larger and more complex surveys, it also provides more EM data points per square kilometre, which in turn means improved data quality.

A fully integrated spare equipment set and a new advanced on-board processing system will enhance the quality and improve delivery time for EM data.

QHSE

Quality, health, safety and environment standards are fundamental to all that we do, and have been an integral part of the vessel's design process. This will be a safe and pleasant workplace for our crew and client representatives. The vessel's features include sheltered deck and work spaces, a cinema, a helicopter deck, a hospital ward, conference facilities, a gym and modern workstations with broadband connection.

The new vessel was built by Bergen Group Fosen and is leased from the owner BOA Offshore on a long-term charter.



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Sheltered deck and workspaces mean safer operating conditions, as well as increased efficiency.

On-board processing and data quality is enhanced by a new and advanced computing system .

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BOA Thalassa - The world's first purpose-built EM survey vessel

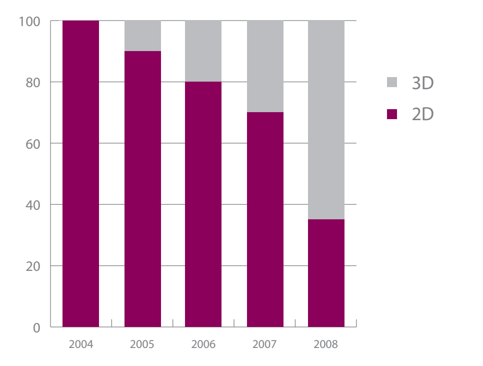
All functions, for example navigation and field geo-physicists, are gathered in one centre.

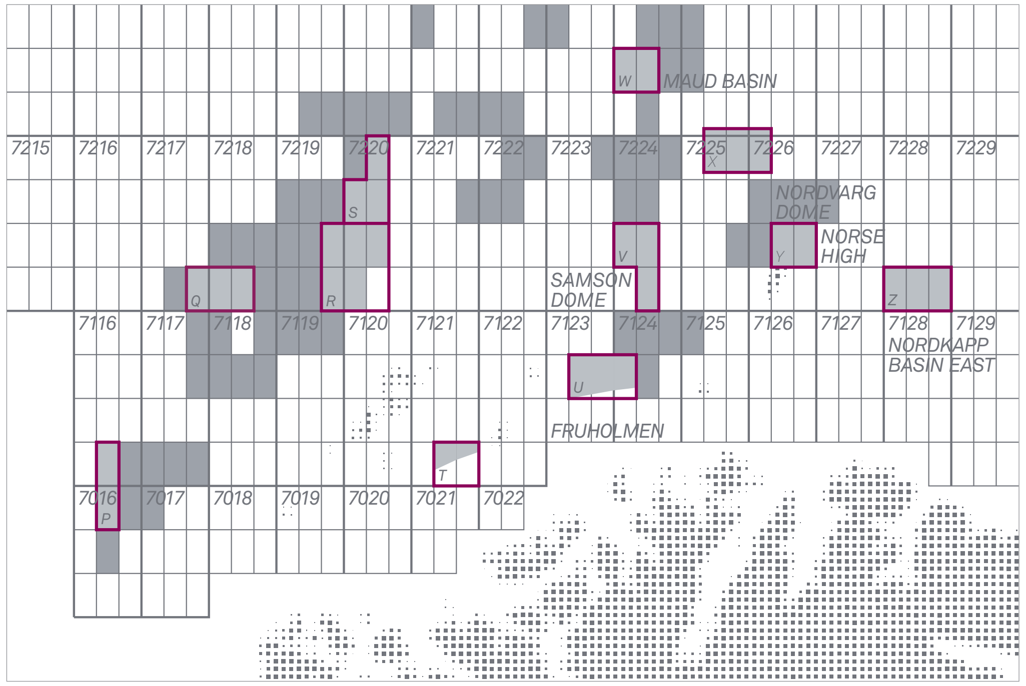
The vessel's fully integrated spare equipment set has two parallel source and receiver systems, includ-ing winches, cranes and hydraulic feeds.

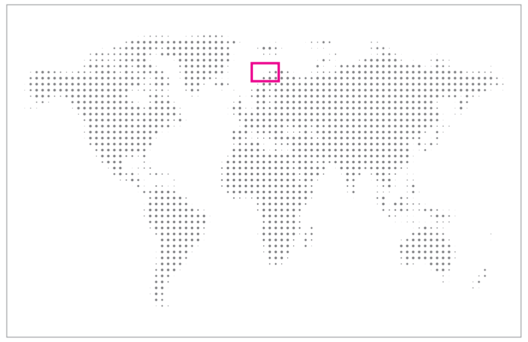
The BOA Thalassa carries 100 receivers and has the capacity to carry 200.

Company highlights 2008

Development of 3D EM (in %)







The Barents Sea: World's largest multi-client 3D EM survey

EMGS completed the world's largest multi-client survey in the Barents Sea, ahead of Norway's 20th exploration licensing round. The survey area, at more than 9000 km2 and covering 30 blocks, includes all the Barents Sea acreage in the licensing round.

EMGS has sold the Barents Sea data sets to a wide variety of customers to support their potential bidding activity in this licensing round. The oil and gas companies that used these valuable Clearplay Find EM data during their licensing round decision-making were able to differentiate themselves and achieve a competitive advantage.

3D EM breakthrough

EMGS's 3D acquisition and processing services now account for almost 70% of our revenues. 3D EM data provide superior data quality and can be more easily integrated into the exploration and production workflow, and interpreted alongside other subsurface information.

Bridge: Enhancing integration

Bridge, a decision-support tool for exploration professionals, was developed and launched jointly by EMGS and Blueback Reservoir to enhance integration of EM data. This software is an EM plug-in for Petrel, one of the industry's leading geological and geophysical integration platforms.

Looking at EM data alone ensures better understanding of the resistivity distributions in the subsurface. The new software enables integration of electromagnetic (EM) data with geophysical, geological and well log information, resulting in a clearer and more complete understanding of the subsurface and reduced exploration risk.

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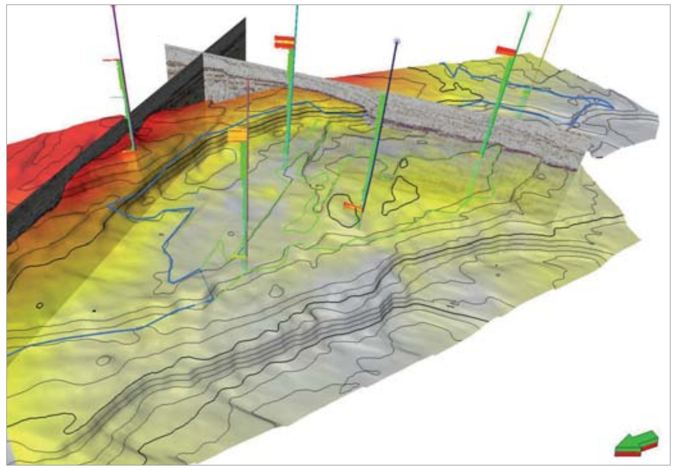
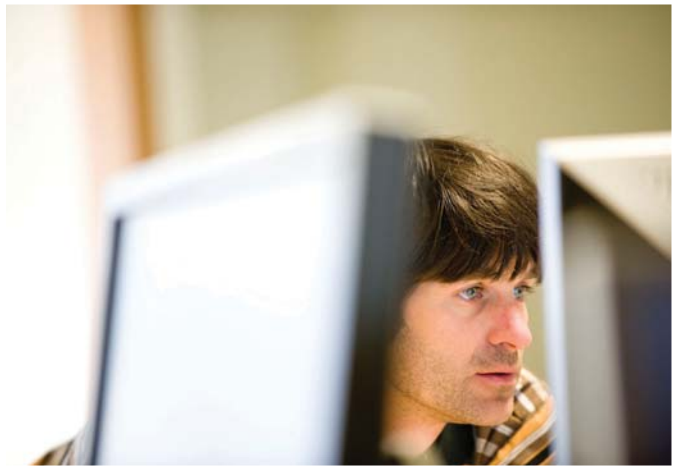
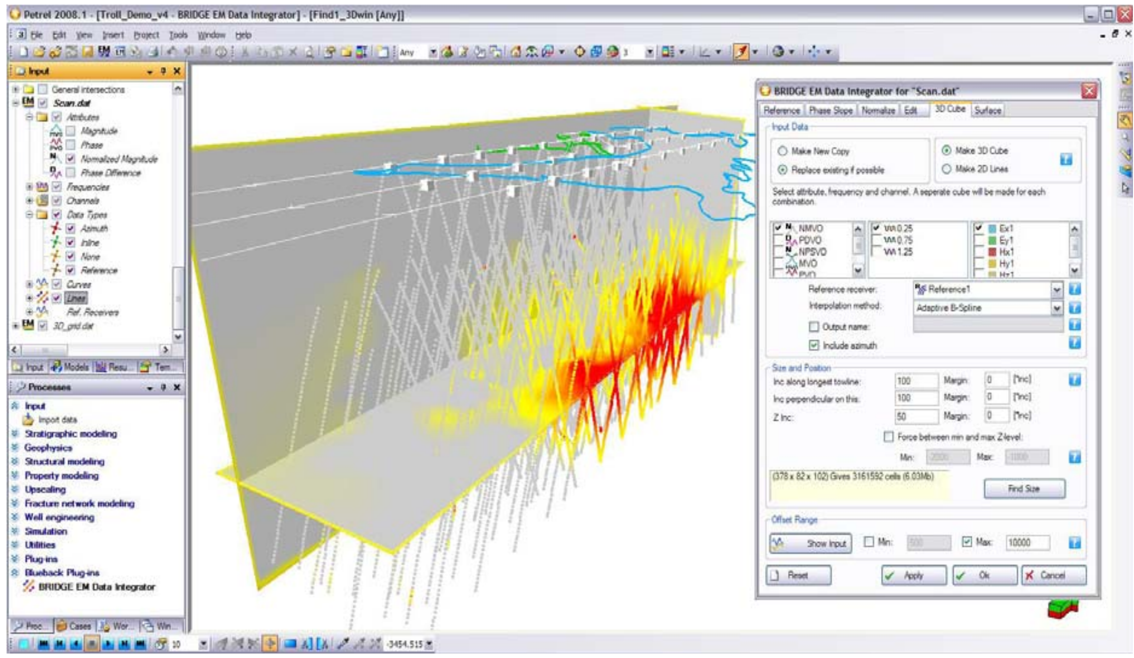
Development of 3D EM

3D EM multi-client data has been acquired by EMGS for the 20th Norwegian licensing round - from 30 blocks covering a total of 9,295km^2

The survey took place in the Barents Sea, offshore Norway.







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EM attribute data are effortlessly integrated with other data such as seismic, interpreted horizons and borehole resistivity logs. Here, normalised magnitude attribute values have been draped on an interpretation of top reservoir. Yellow and red colour means higher resistivities. Oil and gas provinces are outlined in green and blue lines.

Effective integration of shipboard and land-based data processing.

Data from an EM survey imported into Bridge in a familiar Petrel environment.

Aurora - enabling advanced 3D EM inversion.

From the Board of Directors

Overview

Electromagnetic Geoservices ASA ("EMGS" or the "Company") and its subsidiaries (together the "Group") is the EM (electromagnetic) market leader. The company launched the EM industry in 2002 with the commercialisation of seabed logging, an exploration method that uses EM energy to help find offshore hydrocarbons, significantly enhancing hydrocarbon exploration efficiency. The company has conducted more than 400 commercial surveys for many of the world's leading oil and gas companies. Activities are coordinated from its headquarters in Trondheim and regional offices in Houston, Stavanger and Kuala Lumpur. The Group also has offices and representatives in Oslo, London, Rio de Janeiro, Perth, Cairo, Lagos, Cape Town, Jakarta and Mumbai. EM surveys have been conducted in a variety of operating conditions and virtually every major basin around the world. 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. Over the past year the Company has focused primarily on grid surveys and providing 3D products to the customers. The Company's shallow-water capabilities have been developed to further broaden the market reach. Over the past two years EMGS has launched its multi-client services, which provide clients with a low cost route to accessing EM data. In 2008 the multi-client services represented approximately 30% of the total revenues.

The Company currently operates three chartered survey vessels, one of which is the purpose built vessel "Boa Thalassa". In addition, EMGS retains custom-designed containerised equipment that can be efficiently transported to any suitable and available vessel, enabling EMGS to deliver cost-effective and operationally efficient survey solutions worldwide.

EMGS maintains proprietary rights over its equipment, technology and software. This permits the Company to provide superior end-to-end service for customers, further build the EM market and develop its EM technology and applications. This position has been the result of intensive research and development activity and the Company intends to invest further in the development of its proprietary capabilities. Three of the Company's method patents have been challenged in court during 2008. In February 2008, a hearing took place in the Netherlands der Haag regarding the Dutch patents, which resulted in a stay of proceedings until the European Patent Office has taken a final decision about the patents within the EU. This is expected to take from two to four years. The result is that the patents remain valid and enforceable in the Netherlands. In the United Kingdom, the High Patent Court heard the case related to the UK patents during the summer of 2008. In January 2009, the Company received the decision that the UK judge found the UK patents to be sufficient, novel, but obvious, and as a consequence invalid. The Company has appealed the decision. The appeal hearing has not been scheduled.

For the year ended December 2008, the Group generated gross revenues of approximately United States dollars ("USD") 116 million, operating loss of approximately USD 60 million and negative EBITDA of approximately USD 21 million.

Subsequent events

EMGS entered into a global frame agreement with Shell Exploration and Production B.V. in March 2009 for the provision of EM services for one year, with optional extensions for two additional years. Shell is one of the most experienced users of EM technology, having completed more than 50 surveys since its first use of EMGS technology in 2004, and this agreement further underlines Shell's confidence in EMGS's technology.

In April 2009 EMGS entered into a global cooperation agreement with Fugro N.V.(Fugro), the world's leading geotechnical, survey and geoscience company. The cooperation agreement is in effect through 2011. Under the agreement, Fugro will gain full access to EMGS's marine EM methods for hydrocarbon exploration and production, and EMGS will gain access to Fugro's worldwide marketing network and marine operating expertise. Both companies have also entered into a non-exclusive worldwide multi-client cooperation agreement, as well as a non-exclusive global technology licensing agreement. As a part of the agreement, Fugro has provided a NOK 150 million secured convertible loan bearing interest at 7.00% p.a. to EMGS. The loan can at any time be converted into common shares in EMGS at the conversion price of NOK 5.75 until the maturity date on January 2, 2012. EMGS believes that the combination of EMGS's industry-leading EM technology and Fugro's position brings to the market a solution that will enhance industry adoption of EMGS's technology.

Public Listing and capital increase

The Company's stock was listed on the Oslo Stock Exchange through 2008. The listing took place on 30 March 2007. In September 2008 the company raised equity capital of USD 42 million in a public rights offering.

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 this establishes the framework by which EMGS deliver services to our customers 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. In addition, EMGS implements corporate governance guidelines beneficial to the business.

Research and development

Research and Development ("R&D") is part of the foundation of the Company. We are fully committed to improving our products and developing new applications, which in turn will provide our customers with further improvements in EM results. In the fall of 2008, the Company reorganised to get R&D resources closer to the clients and further focus was given to product development. As a consequence, the Company has reduced capital expenditures on R&D projects with very long time horizons. The workforce has been reduced from 43 to 36 employees. In 2008, EMGS's R&D expenditure, which mainly consists of staff costs, was USD 5.6 million compared to USD 6.4 million in 2007. EMGS capitalises certain R&D expenses in accordance with IFRS.

Going Concern

In accordance with the Norwegian Accounting Act § 3-3a EMGS confirms that the financial statements have been prepared on a 'going concern' basis. The Board confirms that this basis, which takes account of income forecasts for the year 2009 and the Group's long term strategic forecasts, is valid.

Factors Affecting Results of Operations

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

Demand for EM Services

The overall demand for EMGS's services is dependent, in part, upon offshore exploration and development trends, as well as the amount of spending by oil and gas companies. In recent years, EMGS's customers and large oil and gas consuming nations have perceived a growing and potentially lasting imbalance between the supply of and demand for hydrocarbons. A rapid rise in world consumption has resulted in faster than anticipated increase in the demand for hydrocarbons through the middle of 2008. However, although EMGS sees a significant interest in EM technology, the market developed slower in 2008 than expected, as exploration projects were delayed and companies reviewed their program priorities.

Revenues

A majority of contracts entered into by EMGS in the last two fiscal years has been for a total service solution, in part driven by the increasing level of repeat business from EMGS's customers.

Fleet Status and Utilisation

EMGS currently operates three vessels, reduced from five vessels during 2008 to reflect the reduced demand for EM surveys. EMGS has also started using the "BOA Thalassa", which is the first of the two new purpose-built vessels for EM surveys. The second purpose build vessel, to be named "BOA Galatea", is expected in Q2 of 2009.

EMGS's ability to optimise the performance of its vessels through maximising commercial utilisation and minimising unpaid activities are key factors for the Group's longer term operating performance. Technical downtime, steaming time between surveys and unpaid standby time all negatively impact the Group's operating results.

Seasonality

The Group generally experiences lower levels of revenues in the first quarter of each year compared to later quarters, partly due to the effects of weather conditions in the Northern Hemisphere. These generally prevent the full operation of survey crews and vessels, resulting in lost time due to vessel relocation and reduced activity.

In addition, the Group's operational results fluctuate from quarter to quarter due to the spending patterns of the oil and gas companies. This has historically resulted in a substantial number of contracts being received by the Company during the first and early second quarters with revenues being recorded later in the year. In 2008, the revenues in the first and third quarters were reasonably good, while the second and fourth quarters were disappointing as several projects were delayed as a result of the customers' internal processes and governments failing 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.

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 item of its consolidated income statement.

Results of Operations

Below, the year ended 31 December 2008 is compared to the year ended 31 December 2007.

The Group prepares its accounts in accordance with International Financial Reporting Standards (IFRS).

Operating Revenue

Total revenues for the year ended 31 December 2008 were USD 116.2 million compared with USD 140.3 million for the year ended 31 December 2007, a decrease of 17.2 %.

Total Operating Expenses

Operating expenses increased to USD 176.5 million for the year ended 31 December 2008 compared to USD 165.9 million in 2007. The increase of 6.4% reflects significantly higher fuel prices during the year in addition to the cost of demobilising two vessels and mobilising one vessel. The average number of operated vessels remained flat at 4.4. The impact of cost management initiatives in the latter part of 2008, including the removal of two vessels and reduction in the workforce of 54 employees, will materialise in 2009.

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

Charter costs were reduced to USD 70.5 million for the year ended 31 December 2008 from USD 93.8 million in 2007. The reduction is mainly due to capitalisation of costs related to multi-client surveys, giving a reduction of USD 16.9 million to the charter costs. The reduced fleet in 2008 versus 2007 also had an impact on the reduced charter costs.

Employee Expenses

Employee expenses in 2008 amounted to USD 40.5 million, an increase from USD 32.9 million in 2007. The number of employees has increased significantly over the recent years; from 52 at end 2005, to 154 employees at end 2006, and to 260 at end of 2007. However, in October 2008 the Company reduced the workforce by the temporary or permanent layoff of 54 employees. The number of employees at the end of 2008 was 248. The cost reduction from this process will not be fully effective until 2009.

Depreciation and Amortisation

Depreciation and amortisation rose from USD 13.5 million in 2007 to USD 22.0 million in 2008. The increase in depreciation and amortisation is a direct consequence of the increased investments in equipment.

Multi-client Amortisation

USD 16.9 million has been recorded as multi-client amortisation, as the Company started conducting multi-client surveys and capitalising the library in the balance sheet. As of end 2008 the capitalised amount is fully written off.

Other Operating Expenses

Other Operating Expenses amounted to USD 26.6 million in 2008 compared to USD 25.7 million in 2007.

Financial Income and Expenses

Financial income increased from USD 4.6 million in 2007 to USD 12.0 million in 2008. The net financial expense amounted to USD 2.4 million in 2008 compared to USD 2.0 million in 2007. The net financial result is influenced by foreign exchange fluctuations.

Liquidity and Capital Resources

Cash Flow from Operations, Investing and Financing Activities

Net cash provided by operating activities was negative USD 17.4 million for 2008 compared to negative of USD 20.7 million for 2007.

Net cash applied in investing activities for 2008 was USD 23.7 million. The principal components of these expenditures were USD 16.9 million relating to investment in multi-client library. Investment in EM equipment was the second largest investment, with a total of USD 6.4 million.

Net cash provided by financing activities for 2008 totalled USD 28.5 million. This reflects the Company's issue of equity capital amounting to USD 42.8 million raised under the rights issue in September 2008.

Liquidity Requirements and Financing Facilities

The Group's liquidity needs fluctuate from quarter to quarter depending, principally, on the seasonal trends and the Group's need to commission additional sets of equipment, the timing of which is typically aligned with new vessel delivery. EMGS's cash flow budget indicates that the Company will meet its liquidity requirements for the year 2009.

The Company currently has a USD 26 million credit facility in the form of an overdraft facility and a bank guarantee facility. The overall facility is secured by first priority security over accounts receivable, machinery and plant as well as 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 2.3% per annum. As at 31 December 2008, the Group's aggregate indebtedness under the facility was USD 1.8 million (NOK 12.7 million).

Save financial lease obligations of USD 6.1 million, the Company had no other financial debt.

Joint venture

EMGS owns 50% of the shares in KMS Technology which is a joint venture with Reservoir Exploration Technology ASA ("RXT"). The KMS technology offers an alternative to EMGS' proprietary methodologies, significantly broadening EMGS's product offering to oil companies.

Financial Risk

The Company is subject to currency transaction exposure when it generates revenues in currencies other than those in which it incurs expenses. EMGS incurs approximately 60% of its expenses in USD, including the majority of its current vessel leases, fuel and operational crew costs. Approximately 30 % of its expenses are in Norwegian kroner, including the salaries of staff employed in Norway, the lease of one vessel and office rental. The effects of this operational transaction exposure are recorded in the financial income and expenses line item of the Group's consolidated income statement. The Company aims to hedge non-USD currency transaction risks by seeking to match revenues and costs in the same currency wherever possible. EMGS currently has no financial hedging arrangements in place. In circumstances where it cannot effectively match its revenues and costs, EMGS may in the future seek to hedge such exposure.

The Company has limited exposure to interest rate risk on interest bearing assets, but is exposed to said risk arising from a floating rate structure in the bank facility, as discussed above, and leasing arrangements, as discussed above.

EMGS's sources of liquidity include cash balances, cash flow from operations, an existing credit facility and other debt and equity issuances. EMGS primary sources of funds for its short-term liquidity needs will be cash flow from operations and borrowings under its existing credit facility, while long-term sources of funds will be from cash from operations and other debt or equity financings.

EMGS has no significant concentration of credit risk. The Company's clients are International Major, National and Independent oil and gas companies, most often with an impeccable credit standing and history. However, from time to time, a smaller oil and gas company could be on the client list, and in these cases extraordinary caution is conducted in the credit evaluation. In 2008, EMGS experienced that one client did not pay as invoiced for the survey conducted by EMGS. The company is in dialogue with the client to find a solution for the outstanding amount. The Company has accrued USD 1.4 million to cover this outstanding item.

The Working Environment and the Employees

As at 31 December 2008, the Group had 248 employees, 32 of which are employed at the Group's regional offices in Houston, Texas, USA and 18 of whom are employed at the regional offices in Kuala Lumpur, Malaysia. The Board believes that the Groups' general working environment is good, and it is a prioritised goal for Group's management team to maintain this status. The reduced operating activity and the reduction in the workforce in October 2008 have affected the working environment, but there has been a good understanding by most employees for the measures taken. A group of employee representatives was formed in 2008 and management has held frequent meetings with this group since their election in the summer of 2008. Management has reported that the cooperation with the employee representatives has been good over the year, and that there is a good understanding of the basis for the reduction in the workforce and the cost cutting program implemented during 2008. A second goal is to ensure that the internal educational and training program "the EMGS Training Center" continues to meet the challenges of training the relatively high number of new employees and providing internal educational programs. Since a large number of our employees are involved in offshore operations, a dedicated health, safety and environment (HSE) training program has been put in place to ensure the safest possible working environment. The Company sponsors and promotes various social and sporting activities 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 2008 was 1.0% (1.8% in 2007). One employee was injured during the year. This employee sustained a back injury during loading, resulting in a period of restricted duties for the injured employee.

Equal Opportunities

EMGS has defined and implemented guidelines to protect against gender discrimination. At the end of 2008, 57 of the Group's 248 employees (or 22.8%) were female (21.5% in 2007). The Group will continue to prioritize 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 work force. This can, however, be explained by high degree of representation of males at the management level and among technical professionals.

External environment

EMGS' offshore activity may in some instances lead to spills or other unwanted effects upon the environment. The potential effect is similar in nature to what can be expected in the general maritime transport sector. 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. No spills at sea were reported in 2008.

Allocation of Net Income

The Board of Directors propose that the Net Income of EMGS, the parent company, shall be attributed to:

Uncovered loss	NOK	376 757 571
Other equity	NOK	0
Group Contribution received	NOK	(227 464)
Dividend	NOK	0
Net income/(loss) allocated	NOK	376 530 107

This proposal reflects the Board of Directors' desire to strengthen the equity position of the Company and to comply with the dividend obligations associated with the conversion of EMGS' preference shares to ordinary shares.

The Company does not have distributable equity as of December 31st 2008.

Oslo, 28 April 2009
Board of directors

Bjarte H. Bruheim
Chairman of the Board

Berit Svendsen

Grethe Høiland

Christopher Alan Wright

David Benjamin Krieger

Jeffrey Alan Harris

Bjørn Henry Rosvoll

Jens Ensted Danielsen

Corporate governance

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 4 December 2007. 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 2008 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 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 shareholders 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 Børs.

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 has implemented 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 Code of Practice stipulates that the board of directors should have arrangements to ensure an independent Chairman for the general meeting. The Company evaluated the stipulation in the Code of Practice but decided that it was in the interest of the Company and the shareholders that the general meeting is chaired by the Chairman.

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.

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.

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 2008.

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 quarterly 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 quarterly reports.. Presentation material is made public no later than simultaneously with the commencement of the presentation.

In addition to the dialogue 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 67% 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.

This section

ELECTROMAGNETIC GEOSERVICES GROUP

Electromagnetic Geoservices Group
Year ended 31 December

Consolidated income statement

Amounts in USD 1 000	Note	2008	2007
Operating revenues			
Contract sales	19	116 177	140 339
Total operating revenues		**116 177**	**140 339**
Operating expenses			
Charter hire, fuel and crew expenses	26	70 518	93 816
Employee expenses	20	40 451	32 931
Depreciation and ordinary amortisation	10, 11	22 029	13 477
Multi-client amortisation	12	16 889	-
Other operating expenses	21	26 572	25 685
Total operating expenses		**176 459**	**165 909**
Operating profit (loss)		**-60 282**	**-25 570**
Financial income and expenses			
Financial income	23	12 014	4 624
Financial expenses	23	-14 406	-6 595
Net financial expenses		**-2 392**	**-1 971**
Loss before income tax		**-62 674**	**-27 541**
Income tax expenses	24	3 096	3 384
Loss for the year		**-65 769**	**-30 925**
Basic loss per share (result for the year/shares) in USD	30	**-0.83**	**-0.47**
Diluted loss per share (EPS) in USD	30	**-0.83**	**-0.47**

Electromagnetic Geoservices Group
As at 31 December

Consolidated balance sheet

Amounts in USD 1 000	Note	2008	2007
ASSETS			
Current assets			
Cash and cash equivalents	6	28 112	40 685
Trade receivables	7	13 923	32 838
Prepaid assets	8	12 631	9 077
Other receivables	8	2 943	4 810
Inventories	9	9 539	12 509
Total current assets		**67 148**	**99 917**
Non-current assets			
Intangible assets	10	3 784	3 341
Property, plant and equipment	11	42 665	48 303
Interest in joint ventures	5	12 800	13 212
Total non-current assets		**59 249**	**64 855**
Total assets		**126 397**	**164 772**
LIABILITIES			
Current liabilities			
Trade payables	35	19 514	28 543
Borrowings	14	5 099	11 625
Current tax liabilties	?	2 836	4 240
Other short term liabilities	13	9 360	14 710
Total current liabilities		**36 809**	**59 118**
Non-current liabilities			
Borrowings	14	2 780	1 064
Employee benefit obligations	16	4 392	2 509
Total non-current liabilities		**7 172**	**3 572**
Total liabilities		**43 981**	**62 690**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital, share premium and other paid equity	17	244 961	198 966
Other reserves		-226	-220
Retained earnings		-162 319	-96 694
Total equity		**82 416**	102 082
Total equity and liabilities		**126 397**	164 772

Consolidated statement of cash flow

Amounts in USD 1 000	Note	2008	2007
Net cash flow from operating activities:			
Loss before income tax		-62 674	-27 541
Adjustments for:			
Depreciation	11	20 434	12 483
Ordinary amortisation	10	1 594	994
Multi-client amortisation	12	16 889	-
Profit on sale of fixed asset		-84	-
Share of net loss of joint venture		143	-
Non-cash portion of pension expenses		1 883	1 088
Cost of share-based payments		2 011	1 392
Cost of rights issue		1 134	-
Change in trade receivables		18 915	-928
Change in inventories		2 969	-6 884
Change in trade payables		-9 029	7 866
Change in other working capital		-7 043	-5 181
Taxes paid		-4 499	-3 987
Net cash flow from operating activities		**-17 357**	**-20 698**
Investing activities:			
Investment in joint ventures	5	412	-13 212
Purchases of property, plant and equipment		-6 396	-35 886
Purchases of intangible assets		-2 037	-1 905
Proceeds from sales of assets		1 198	-
Investment in multi-client library		-16 889	-
Cash used in investing activities		**-23 712**	**-51 003**
Financial activities:			
Financial lease payments-principal		-6 319	-2 549
Down-payment of bonds		-	-20 800
Proceeds from issuance of ordinary shares	17	42 820	115 892
Payment of bank borrowings		-8 005	-642
Cash provided by financial activities		**28 496**	**91 901**
Net increase in cash		**-12 573**	**20 200**
Cash balance beginning of period		40 685	20 485
Cash balance end of period		28 112	40 685
Increase in cash		**-12 573**	**20 200**
Interest paid		-3 993	-509
Interest received		1 314	3 135

Consolidated statement of changes in equity

Amounts in USD 1 000	Note	Share capital, share premium and other paid-in equity	Other reserves	Retained earnings	Total equity
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 for loss 2007		-	-166	-30 925	**-31 041**
Share-based payment	17	1 392	-	-	**1 392**
Dividends	17	-	-	-4 950	**- 4950**
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**
Balance at 1 January 2008		**198 996**	**-220**	**-96 694**	**102 082**
Currency translation differences		-	-6	-	**-6**
Net income/(expense) recognised directly in equity		-	-6	-	**-6**
Loss for the year		-	-	-65 769	**-65 769**
Total recognised loss for 2008		-	-6	-65 769	**-65 775**
Proceeds from shares issued – for consideration acquired interest in joint venture	17	405	-	144	**549**
Proceeds from shares issued – rights issue and options exercised	17	45 380	-	-	**45 380**
Cost of share-based payment	17	2 011	-	-	**2 011**
Cost of rights issue	17	-1 831	-	-	**-1 831**
Balance at 31 December 2008		**244 961**	**-226**	**-162 319**	**82 416**

Notes

NOTE 1: CORPORATE INFORMATION

Electromagnetic Geoservices ASA ("EMGS"/"the Company") and its subsidiaries (together "the Group") use EM, 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 publicly 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 28 April 2009.

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 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 principles 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:

- IFRIC 14/IAS 19, "The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction"
  IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 "Employee Benefits". The Group amended its accounting policy accordingly. The Group's defined benefit schemes have been in deficit, therefore the adoption of this interpretation had no impact on the financial position or performance of 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 1 January 2009 or later periods but which the Group has not early adopted, as follows:

- 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).
- IFRS 2, "Amendment - Share based Payments – Vesting Conditions and Cancellations" (effective for annual periods beginning on or after 1 January 2009).
- IFRS 1, "Amendment to IFRS 1" and IAS 27 "Amendment to IAS 27" (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).
- IAS 39, "Amendment to IAS 39 - Financial instruments - Recognition and measurement - Eligible Hedged Items" (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 12, "Service Concession Arrangements" (effective 1 January 2008, but was at that time not approved by EU. It is expected that EU sets an effective date for the financial statements commencing after 31 December 2008. The Group plans to implement IFRIC 12 from 1 January 2009).
- IFRIC 15, "Agreements for the construction of real estate" (effective for annual periods beginning on or after 1 January 2009).
- IFRIC 16, "Hedges of a net investment in a foreign operation" (effective for annual periods beginning on or after 1 October 2008).
- IFRIC 17, "Distribution of non-cash assets to owners" (effective for annual periods beginning on or after 1 July 2008).

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 and approved by EU.

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 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 period. 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 in equity is recognised as part of gain/loss on sales in 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:
Machinery and equipment	3 - 5 years
Cluster *	5 years
Hardware equipment and furniture	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 definite or indefinite.

Intangible assets with definite 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.

(d) Multi-client library
The multi-client library consists of surveys of electromagnetic data. The surveys can be licensed to customers on a non-exclusive basis. Directly attributable costs associated with the production and development of multi-client projects such as acquisition costs, processing costs and direct project costs are capitalised as incurred.

The Company amortises its multi-client library primarily based on the ratio between the cost of the surveys and the total forecasted sales for such surveys. Surveys are categorised into four amortisation categories with amortisation rates of 90%, 75%, 60% or 45% of sales amount. Classification of a project into a rate category is based on the ratio of its remaining net carrying value to its remaining sales estimate. Amortisation is recorded each time there has been a multi-client sale on surveys with a carrying value higher than zero.

The Company also applies minimum amortisation criteria for the library projects based on a three-year life. Under this policy, the book value of each survey is reduced to a specified percentage by each quarter end, based on the age of the survey. The calculation of minimum amortisation is recorded quarterly after amortisation for sales.

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, thecarrying 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-to-maturity 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 recorded 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 delinquency 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 Equity
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 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 for 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.

2.19 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.

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(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.

2.20 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) 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) Sales of multi-client library data

Pre-funding agreements:

Before an EM survey is completed, the Company secures funding from a group of customers. The advantages for pre-funding customers are generally the possibility to influence the project specifications, early access to acquired data and discounted prices. The Company recognises pre-funded revenue after the percentage of completion method. Progress is measured by reference to the percentage of vessel operational hours incurred to date versus the total estimated vessel operational hours for the project, provided that all other revenue recognition criteria are satisfied.

Late sales:

Customers are granted a license from the Company which entitle them to access a specific part of the multi-client data library. The license payment is fixed and is required when the license is granted. The late sale revenue is recognised when a valid licensing agreement is signed and the multi-client library data made accessible to the customer.

(c) 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.

2.21 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 fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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.

2.22 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).

2.23 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.

2.24 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 2008 or 2007 and it is, and has been throughout 2008 and 2007, 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, interest rate 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 78% of the Group's sales are denominated in USD, whilst approximately 60% 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
2008	+20 %	851
	-20 %	-1 277
2007	+20 %	4 732
	-20 %	-7 098

(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 5 major customers amounted to a significant part of 2008 sales, these customers were 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 such 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. To limit the risk EMGS has deposited cash in several banks.of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities)

(c) Liquidity risk
The Group's sources of liquidity include cash balances, cash flow from operations, it's existing and new bank facilities and further debt and equity issues. It's the Group's objective to balance these sources of liquidity as well as the operational performance and current global capital markets will allow. The primary source of liquidity maintains to be cash flow generated from the Group's operations. There is a risk of decreased demand of the company's services as a consequence of the financial crises, but as the majority of customers are solid large companies, EMGS feels confident in reaching the revenue forecast necessary for a stable liquidity. In addition, a global cooperation agreement with Fugro, the world's leading geotechnical, survey and geoscience company, has been entered into. This agreement includes a convertible loan from Fugro of NOK 150 million.

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

Amounts in USD 1 000	On demand	Less than 1 year	1 to 5 years	> 5 years	Total
Year ended 31 December 2008					
Interest bearing loans and borrowings	1 819	-	-	-	**1 819**
Other liabilities	-	-	-	4 392	**4 392**
Trade and other payables	-	27 428	-	-	**27 428**
Other financial liabilities	-	3 280	2 780	-	**6 060**
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	-	1 820	1 217	-	**3 037**

(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. Due to the current market conditions, the Group considers a share issuance or a loan agreement to be potential sources for additional funding. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

The Group monitors its capital structure on the basis of a total equity to total asset ratio. As of 31 December 2008 this ratio was 66%. In 2007 the ratio was 62%. 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 2008 is 4 392 (2007: 2 509). 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.

Joint venture
The management is required to allocate the purchase price to the assets aquired and liabilities assumed based on their estimated fair values for the joint venture. The Group engaged independent valuation specialists to determine the purchase price allocation of the shares in KJT Inc. Judgement in selecting valuation method, estimates and assumption was required when allocating the purchase price.

The purchased intangible assets include technology. The management's estimate of fair value and useful life are based upon assumptions believed to be reasonable, but which are uncertain and unpredictable and, as a result, actual values may differ from estimates.

Revenue recognition
The Group uses the percentage-of-completion method in accounting for its contracts to deliver survey services. Use of the percentage-of-completion 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.

Amortisation of the multi-client library

In determining the sales amortisation rates applied to the multi-client library, the Company considers expected future sales. The assumption regarding expected future sales includes consideration of geographic location, prospects, political risk and license periods. It is difficult to make an assumption regarding future sales, hence the amortisation rate will fluctuate when the sales forecast is updated. To reduce effect on changes in the amortisation amount caused by deviation in sales forecast from year to year, the Company has a maximum lifetime of 3 years on multi-client project. The minimum amortisation policy is described in Note 2.8 d).

4.2 Critical accounting judgment

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.

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 2008 are 37 123 (2007: 18 940).

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 2008, the carrying amount of capitalised development costs are 1 994 (2007: 941).

NOTE 5: INTEREST IN A JOINT VENTURE

The accounting recognised in the 31 December 2007 financial statement was based on a preliminary allocation of the purchase price. The allocation of the purchase price was completed in March 2008. Goodwill was then splitt into value of technology and value of goodwill. This had no material effect on the 2007 numbers.

The following table illustrates summarised financial information of the Group's investment in KJT Inc:

Share of the joint venture's balance sheet:

Amounts in USD 1 000	2008	2007
Current assets	1 477	988
Non-current assets	33	21
Current liabilities	860	736
Non-current liabilities	-	-
Net assets	**649**	**273**
Value of technology	4 698	
Value of goodwill	7 453	12 939
Carrying amount on investment	**12 800**	**13 212**
Share of the joint venture's revenue and profit:		
Revenue	3 884	54
Profits	379	-
Amortisation of technology (10 year)	522	-
Recognised in the Consolidated Income Statement	**(143**	-

The Group tests goodwill annually for impairment of more frequently if there are indications that goodwill is impaired. EMGS has identified the KJT investment as a cash generating unit.

The recoverable amount of the KJT investment is determined based on a value in use calculation which uses after-tax cash flow projections. As the Company is expected to develop further beyond a three year period, the value in use is based on cash flow projections reflecting the financial forecast covering a 9 year period. Cash flows beyond the nine-year period are extrapolated with a long term growth rate of 2.5%. The after-tax discount rate applied to the cash flow projections is 16.2%.

Management believes that any reasonably possible change in key assumptions underlying the calculations of the recoverable amount would not trigger any impairment as of December 31, 2008.

NOTE 6: CASH AND CASH EQUIVALENTS

Amounts in USD 1 000	2008	2007
Cash	27 218	39 585
Restricted cash	894	1 100
Total cash and cash equivalents	**28 112**	**40 685**

See Note 14 for explanation of overdraft facility.

Cash 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	2008	2007
Accounts receivable	10 805	31 162
Accrued revenues	4 504	6 341
Provision for doubtful receivables	-1 387	-4 665
Total trade receivables	**13 923**	**32 838**

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

At 31 December 2008 the Group assessed the trade receivables and found it necessary to make a provision of 1 387 based on assessment of risk of bad debt loss.

Movements in the provision for doubtful receivables are as follows:

Amounts in USD 1 000	2008	2007
At 1 January	**-4 665**	-
Charge for the year	**-1 387**	-4 665
Amounts written off	**4 665**	-
At 31 December	**-1 387**	**-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
2008	**10 805**	**4 106**	**3 101**	**1 189**	**16**	**-**	**2 393**
2007	31 162	13 536	5 825	1 529	4 908	5 364	-

NOTE 8: OTHER RECEIVABLES AND PREPAID ASSETS

Amounts in USD 1 000	2008	2007
Prepayments	**2 793**	2 572
Receivables VAT	**-**	2 002
Deferred mobilisation expenses	**-**	54
Other receivables	**151**	182
Total other receivables	**2 943**	**4 810**
Prepaid assets	**3 639**	9 077
R&D projects under development	**8 991**	-
Total prepaid assets	**12 631**	**9 077**

Fair value of the receivables approximates the nominal values.

NOTE 9: INVENTORIES

Amounts in USD 1 000	2008	2007
Equipment components and parts, at cost	**7 247**	8 259
Anchors and batteries, at cost	**1 072**	1 433
Fuel, at cost	**1 221**	2 817
Total inventories	**9 539**	**12 509**

Inventory items expensed during 2008 amounted to 17 203 (2007: 15 883) and are included as components of operating expenses.

NOTE 10: INTANGIBLE ASSETS

Amounts in USD 1 000	Software and licenses	Patents	Total
At 1 January 2007			
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**
Year ended 31 December 2008			
Opening carrying value	2 616	725	**3 341**
Additions	367	-	**367**
Capitalised internally developed software	1 670	-	**1 670**
External contribution from customers	-	-	**-**
Amortisation charge	-1 427	-168	**-1 595**
Amortisation external contribution from customers	-	-	**-**
Closing carrying value	**3 227**	**557**	**3 784**
At 31 December 2008			
Accumulated cost	5 912	1 673	**7 585**
Accumulated amortisation	-2 658	-1 116	**-3 801**
Net carrying value	**3 227**	**557**	**3 784**

The patents are related to electromagnetic method, the Group's proprietary process which allows for the direct detection of hydrocarbons under the earth. The remaining amortisation period is 3 years and 4 month.

	Estimated useful lives
Patents	10 years
Software and licenses	3 years

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

Amounts in USD 1 000	Machinery and equipment	Hardware and furniture	Cluster	Total
At 1 January 2007				
Accumulated cost	33 519	3 589	2 275	39 383
Accumulated amortisation	-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 amortisation	-24 706	-2 720	-1 138	-28 564
Net carrying value	35 036	7 303	5 964	48 303
Year ended 31 December 2008				
Opening carrying value	35 036	7 303	5 964	48 303
Additions	11 131	3 235	1 519	15 884
Disposals	-1 607	-	-	- 1 670
Depreciation charge	-15 577	-3 225	-1 632	-20 434
Depreciation on disposals	519	-	-	519
Closing carrying value	**29 501**	**7 313**	**5 851**	**42 665**
At 31 December 2008				
Accumulated cost	69 266	13 258	8 621	91 144
Accumulated amortisation	-39 764	-5 945	-2 770	-48 479
Net carrying value	**29 501**	**7 313**	**5 851**	**42 665**

Finance leasing included in property, plant and equipment:

2007				
Cost of capitalised finance leases	-	3 357	2 275	5 632
Accumulated depreciation	-	-1 187	-1 138	-2 352
Net carrying value	**-**	**2 170**	**1 137**	**3 307**
2008				
Cost of capitalised finance leases	-	7 120	8 621	15 741
Accumulated depreciation	-	-3 170	-2 770	-5 940
Net carrying value	**-**	**3 950**	**5 851**	**9 801**

The amount of Property, Plant & Equipment pledged as security for liabilities has a net carrying value of 25 004 as of December 31, 2008 (2007: 3 307).

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

NOTE 12: MULTI-CLIENT LIBRARY

Amounts in USD 1 000	Total
At 1 January 2008	
Accumulated investments	-
Accumulated amortisation	-
Net carrying value	-
Year ended 31 December 2008	
Opening carrying value	-
Cash investments	16 899
Amortisation expenses	-16 899
Closing carrying value	-
At 31 December 2008	
Accumulated investments	16 899
Accumulated amortisation	-16 899
Net carrying value	-

The amortisation expense only includes amortisation of costs directly related to production, such as acquisition costs, processing costs and direct project costs. No impairment has been recorded in 2008.

Multi-client revenues recognised in 2008 amounted to 33 700 (2007: 0).

NOTE 13: OTHER SHORT TERM LIABILITIES

Amounts in USD 1 000	2008	2007
Accrued expenses	3 239	5 917
Holiday pay	1 487	1 583
Social security taxes and other public duties	1 551	4 493
Other short term liabilities	3 083	2 717
Total other short term liabilities	**9 360**	**14 710**

Accrued expenses are generally on 30 days payment terms.

NOTE 14: BORROWINGS

Amounts in USD 1 000	2008	2007
Non-current		
Finance lease liabilities	2 780	1 065
Loans	-	-1
Bonds	-	-
Total	2 780	1 064
Current		
Bank borrowings	1 819	9 824
Finance lease liabilities	3 280	1 801
Total	5 099	11 625
Total borrowings	7 879	12 689

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 LIBOR + 2.30 percentage point per annum and the termination date is 1 May 2009. 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:

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	2008	2007
6 months or less	7 879	12 689
6-12 months	-	-
1-5 years	-	-
Over 5 years	-	-
Total	7 879	12 689

Amounts in USD 1 000	2008	2007
Between 1 and 5 years	2 780	1 064
Over 5 years	-	-
Total	2 780	1 064

The carrying amounts and fair value of the non-current borrowings are as follows:

Amounts in USD 1 000	Carrying amounts		Fair values	
	2008	2007	2008	2007
Leasing liabilities	2 780	1 065	2 780	1 065
Loans	-	-1	-	-1
Bonds	-	-	-	-

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	2008	2007
USD denominated	1 819	-
NOK denominated	6 060	12 869
Total	7 879	12 689

The Group has 22 165 (2007: 9 057) 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 2009.

The effective interest rates at the balance sheet date were as follows:

	2008		2007	
	NOK	USD	NOK	USD
Bank borrowings	-	20.86 %	9.17 %	-
Leasing liabilities	6.46 %	-	6.46 %	-

NOTE 15: FINANCE LEASE OBLIGATIONS

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

Amounts in USD 1 000	2008	2007
Finance lease liabilities – minimum lease payments:		
No later than 1 year	3 633	1 820
After 1 year and no more than 5 years	2 940	1 217
After more than 5 years	-	-
	6 573	3 037
Future finance charges on finance leases	-513	-171
Present value of finance lease liabilities	6 060	2 866
The present value of finance lease liabilities is as follows:		
No later than 1 year	3 280	1 801
After 1 year and no more than 5 years (Note 13)	2780	1 605
After more than 5 years	-	-
Total present value of finance lease liabilities	6 060	2 866
Contract terms regarding property rights at expiration of the contract:		
The ownership will be negotiated at the end of the leasing period.		

NOTE 16: EMPLOYEE BENEFIT OBLIGATIONS

The Company operates a defined benefit plan. The number of employees included as of year-end are 188 in 2007 and 199 in 2008. The plan only includes employees employed in Norway.

Amounts in USD 1 000	2008	2007
Balance sheet obligations for:		
Pension obligations	4 392	2 509
Income statement charge for:		
Pension obligations	4 544	2 507

Pension benefit obligation

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

Amounts in USD 1 000	2008	2007
Defined benefit obligation	9 677	7 821
Fair value of plan assets	-2 605	-3 681
	7 072	4 140
Unrecognised actuarial gain (loss)	-2 680	-1 631
Liability in the balance sheet	4 392	2 509

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

Amounts in USD 1 000	2008	2007
Beginning of the year	7 821	3 683
Exchange differences	-2 241	772
Current service cost	3 817	2 126
Interest cost	339	163
Actuarial losses/(gains)	-434	978
Social security tax	375	99
End of the year	9 677	7 821

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

Amounts in USD 1 000	2008	2007
Beginning of the year	3 681	1 648
Expected return on plan assets	240	135
Actuarial (losses)/gains	-1 469	45
Exchange differences	-1 161	146
Employer contributions	1 313	1 707
End of the year	2 605	3 681

The amounts recognised in the income statement are as follows:

Amounts in USD 1 000	2008	2007
Current service cost	3 817	2 126
Interest cost	339	163
Expected return on plan assets	-240	-135
Amortisation of actuarial (gain)/loss	45	10
Social security tax	556	310
Administration fee	26	33
Net benefit expense	4 544	2 507

The principal actuarial assumptions used are as follows:

	2008	2007
Discount rate	3.80 %	4.70 %
Expected rate of return on plan assets*	5.80 %	5.75 %
Expected future salary increases	4.00 %	4.50 %
Expected rate of pension increases	3.75 %	4.25 %
Social security tax - rate	14.10 %	14.10 %

The change in actuarial assumptions in 2008 is in accordance with guidance published by the Norwegian Accounting Standards Board in December 2008.

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:

	2008	2007
Shares	**12.50 %**	24.80 %
Bonds and money market	**38.90 %**	29.00 %
Hold to maturity bonds	**27.90 %**	27.70 %
Real estate	**16.80 %**	15.60 %
Other	**3.90 %**	2.90 %
Total	**100 %**	**100 %**

Expected contributions to the defined benefit plan for the year ending 31 December 2009 are 1 219.

Amounts for the current and previous four periods are as follows:

Amounts in USD 1 000	2008	2007	2006	2005	2004
As at 31 December					
Defined benefit obligation	**9 677**	7 821	3 683	1 359	754
Plan assets	**2 605**	3 681	1 648	657	488
Deficit/(surplus)	**7 072**	**4 140**	**2 035**	**702**	**266**
Experience adjustments on plan liabilities	**-434**	978	326	-232	-
Experience adjustments on plan assets	**1 469**	45	32	96	-

NOTE 17: SHARE CAPITAL, SHARE PREMIUM AND OTHER PAID IN CAPITAL

Amounts in USD 1 000	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 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 1 January 2008	**74 186 773**	**-**	**2 821**	**-**	**193 256**	**2 919**	**-**	**-**	**198 996**
Proceeds from rights issues	16 949 003	-	732	-	41 748	-	-	-	**42 480**
Proceeds from options exercised	368 500	-	18	-	1 051	-	-	-	**1 069**
Share-based payment	-	-	-	-	-	2 011	-	-	**2 011**
Proceeds for consideration acquired interest in joint venture	64 985	-	3	-	402	-	-	-	**405**
At 31 December 2008	**91 569 261**	**-**	**3 574**	**-**	**236 457**	**4 930**	**-**	**-**	**244 961**

At the rights issue EMGS issued 16 949 003 shares at the price of USD 2.62 (NOK 15.14) per share. Costs related to the capital increase of 1 831 were recorded as a reduction of the share premium. 436 454 shares were issued for consideration for costs related to the capital increase.

The total authorised number of ordinary shares is 91 569 261 shares (2007: 74 186 773 shares) with a par value of USD 0.04 (NOK 0.25) per share. All issued shares are denominated in NOK and fully paid.

Number of shares, shareholders:

	Number of ordinary shares	Percentage
Warburg Pincus	61 873 434	67.57 %
Bruheim Bjarte Henry	2 350 088	2.57 %
JPMorgan Chase Bank	2 041 600	2.23 %
UBS AG, London Branch	1 688 900	1.84 %
Birkeland Gunnar Michael	1 142 000	1.25 %
Ellingsrud Svein	910 214	0.99 %
Eidesmo Terje	854 214	0.93 %
Bankenes Sikringsfond Lend ACC	683 900	0.75 %
Strack Kurt Martin	563 011	0.61 %
JPMorgan Chase Bank	561 550	0.61 %
Citibank N.A. (London Branch)	475 463	0.52 %
Krosshø AS	472 881	0.52 %
Johansen Ståle Emil	422 214	0.46 %
Alden AS	376 000	0.41 %
Goldman Sachs & CO - Equity	334 653	0.37 %
Terra Norge, VPF	321 000	0.35 %
UBS AG New York Branch P	320 000	0.35 %
Tannreg Invest AS	300 000	0.33 %
Pensjonskassen StatoilHydro	285 965	0.31 %
AG Invest	278 400	0.30 %
Others	15 313 774	16.72 %
Total	**91 569 261**	**100.00 %**

NOTE 18: 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	2008	2007
Expense arising from share based options	2 011	1 392

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
- 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 2008 and 2007:

	2008	2007
Expected volatility (%)	48 %	53 %
Risk free interest rate (%)	4.18 %	3.99 %
Expected life of options (years)	5	5
Weighted average share price (USD)	2.77	2.70

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

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

	2008		2007	
	Average exercise price in USD per share	Options	Average exercise price in USD per share	Options
At 1 January	**3.28**	**2 210 300**	**2.83**	**3 151 500**
Granted	5.39	3 490 000	16.63	10 000
Forfeited	-	-	-	-
Exercised	2.66	-368 500	2.96	-936 200
Terminated	3.62	-332 000	-	-
Lapsed	-	-	4.81	-15 000
At 31 December	**3.86**	**4 999 800**	**3.46**	**2 210 300**
Exercisable at 31 December	**3.21**	**1 699 800**	**3.28**	**582 300**

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	1 118 300
2014	16.63	10 000
		2 210 300

2008

	In USD per share	Options
2011	1.56	560 000
2012	1.56	120 000
2013	1.99 and 3.71	875 800
2014	12.86	10 000
2015	2.86, 4.29, 4.82	3 434 000
		4 999 800

The weighted average remaining contractual life for the share options outstanding as at 31 December 2008 is 5.92 years (2007: 4.85 years).

The weighted average fair value of options granted during the year was NOK 5,54 (2007: 40.56).

NOTE 19: SEGMENT

For management purposes, the Group is organised into one reportable segment. The Group offers one product; Clearplay and the sale contracts and costs are incurred world wide. The Group uses 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 information

Revenues from external customers

Amounts in USD 1 000	2008	2007
Norway	44 192	54 715
Australia	158	17 936
India	8 205	16 753
Brazil	2 625	12 363
Canada	36	9 092
Congo	99	7 936
Malaysia	15 338	6 841
USA	4 684	75
Mexico	12 257	-
Libya	13 127	2 880
Ghana	11 069	2 142
Others	4 386	9 606
Total	**116 177**	**140 339**

NOTE 20: EMPLOYEE EXPENSE

Amounts in USD 1 000	2008	2007
Employee expense		
Salaries	29 183	22 454
Social security tax	2 959	4 313
Pension costs (Note 16)	4 544	2 507
Other payments	1 754	2 265
Cost of share based payment (Note 18)	2 011	1 392
Total employee expense	**40 451**	**32 931**
Compensation of key management personnel of the Group		
Salary	1 450	2 769
Bonus paid in the year	-	1 075
Share options	1 905	997
Pension benefits	102	232
Other benefits	73	277
Total management remuneration	**3 530**	**5 350**

NOTE 21: OTHER OPERATING EXPENSES

Amounts in USD 1 000	2008	2007
Rental and housing expenses	3 406	1 826
Consumables and maintenance	1 052	1 526
Consultancy fees *	5 641	7 318
Travel expenses	4 771	4 331
Insurance	970	1 363
Loss on trade receivable	1 412	2 181
Marketing	3 798	2 577
Other operating expenses	5 521	4 563
Total other operating expenses	**26 572**	**25 685**
*** Fees to auditor included in consultancy fees:**		
Statutory audit services	213	499
Further assurance services	39	-
Tax advisory services	121	-
Other non-audit services	110	742
Total fees to auditor	**483**	**1 241**

NOTE 22: RESEARCH AND DEVELOPMENT COSTS

Research and development costs consist of 5 561 (2007: 6 402) charged to the income statement as part of operating expenses and 614 (2007: 86) of amortisation of previously capitalised development costs.

NOTE 23: FINANCIAL ITEMS

Amounts in USD 1 000	2008	2007
Financial income:		
Interest income on short term bank deposits	1 314	3 135
Foreign exchange rate gains	10 700	1 489
Total financial income	**12 014**	**4 624**
Financial costs:		
Interest expense	3 993	3 893
Foreign exchange rate losses	9 099	2 608
Other financial expenses	1 314	94
Total financial costs	**14 406**	**6 595**
Net financial income	**-2 392**	**-1 971**

The exchange rate effects are related to borrowings denominated in NOK, accounts receivables and trade payables in NOK.

NOTE 24: INCOME TAX EXPENSES

Amounts in USD 1 000	2008	2007
Current tax	3 096	3 384
Total income tax expense	**3 096**	**3 384**

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	2008	2007
Loss before tax	- 62 674	-27 541
Tax at the domestic rate of 28%	- 17 549	-7 711
Non-deductible expenses and other	-913	-4 629
Change in deferred tax asset, not recognised	18 461	12 340
Foreign income taxes	3 096	3 384
Tax charge	**3 096**	**3 384**

NOTE 25: DEFERRED TAX

Amounts in USD 1 000	2008	2007
Deferred taxes detailed		
Property, plant and equipment	-654	-2 529
Trade receivables	-388	-1 306
Pension obligations	-1 230	-722
Accrued foreign income taxes and other accruals	-1 368	-1 289
Loss carried forward	-33 407	-13 094
Total deferred tax (asset)/liability	**-37 047**	**-18 940**
Non-recognised deferred tax assets	**37 047**	**18 940**
Net deferred tax assets	**-**	**-**

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 2008 and 2007.

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 2008 and 2007.

NOTE 26: CHARTER HIRE, FUEL AND CREW EXPENSES

Amounts in USD 1 000	2008	2007
Charter hire and crew expenses	47 739	50 396
Fuel	13 062	9 857
Other external services	9 717	33 563
Total charter hire, fuel and crew expenses	**70 517**	**93 816**

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	2008	2007
Office premises rental guarantees	223	424
Guarantees on client contracts	1 793	1 949
Total guarantees	**2 016**	**2 373**

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

NOTE 28: 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:

Amounts in USD 1 000	2008	2007
No later than 1 year	**41 805**	50 858
After 1 year and no more than 5 years	**62 698**	131 478
After more than 5 years	**54 275**	10 191
Total operating lease commitments	**158 778**	**192 527**

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	2008	2007
Charter hire	**43 211**	39 245
Office premises	**2 375**	1 235
IT infrastructure	**-**	76
Total	**45 586**	**40 556**

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

In April - June of 2007, Schlumberger Holdings Limited ("Schlumberger") 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 the decision to stay of proceedings until the European Patent Office had reached a final decision was received on 16th April 2008. The patents remain valid and enforceable in the Netherlands throughout the period of stay in proceedings. The European Patent Office is not expected to make a final decision within the next few years.

- A hearing before the High Court of London was held in June/July 2008 and the decision to revoke the three challenged patents in the United Kingdom was made public on 19th January on the basis that the patents were sufficient and novel, but obvious. According to the general rule on costs in English litigation, the Company shall pay Schlumberger's cost. In a hearing held 23 February 2009 the court deducted 17,5% of the total amount Schlumberger would otherwise have the rights to recover on the basis that Schlumberger were unsuccessful on various points. The Company has initiated the appeal process. The Court decided that the Company should make an interim payment of USD 1.4 million as security for the legal fees incurred by Schlumberger until a decision in the appeal court. This expense has been accrued in the 2008 financials.

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. The proceedings took place in April 2008 and the dispute was settled. The settlement is confidential.

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.

Amounts in USD 1 000	2008	2007
Loss attributable to equity holders of the Company	**-65 769**	-30 925
Weighted average number of ordinary shares outstanding (thousands)	**78 776**	66 173
Loss per share (USD per share)	**-0.83**	**-0.47**

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.

NOTE 31: DIVIDENDS

Declared during the year:

Amounts in USD 1 000	2008	2007
Equity dividends on ordinary shares:		
Final dividends for last year	**-**	4 950
Proposed for approval at AGM (not recognised as a liability as at 31 December):		
Equity dividends on ordinary shares	**-**	-

Dividends were converted to ordinary shares in 2007.

Average of dividend per share was USD 0.20 per share.

NOTE 32: RELATED PARTY TRANSACTIONS

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:

Amounts in USD 1 000	2008	2007
Purchases of goods and services		
BKCCA	**393**	62

Year-end balances arising from purchases of goods:

Amounts in USD 1 000	2008	2007
Payables to related parties		
BKCCA	-	62

NOTE 33: INVESTMENT IN SUBSIDIARIES

Company	Share ownership/ voting rights 2008	Share ownership/ voting rights 2007	Equity 31.12.08	Equity 31.12.07	Location
EMGS Americas 1 AS	100 %	100 %	14	18	Trondheim, Norway
EMGS Americas 2 AS	100 %	100 %	14	18	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	100 %	50	17	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	100 %	100 %	2 102	2 680	Rio de Janeiro, Brasil
EMGS Americas Inc	100 %	100 %	(1 382)	(1 609)	Delaware, USA
EMGS International B.V.	100 %	100 %	(20)	(10)	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	49 %	49 %	24	343	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100 %	100 %	187	31	Kuala Lumpur, Malaysia
Global EMGS Nigeria Ltd	35 %	35 %	(19)	-	Lagos, Nigeria
EMGS Australia Pty Ltd	100 %	100 %	(11)	17	Perth, Australia
EMGS AS	100 %	0 %	14	-	Trondheim, Norway

The Group consolidates 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: TRADE PAYABLES

Trade payables are generally non-interest bearing and on 30 days payment terms. Fair value of the payables equals the nominal value of 19 514 (2007: 28 543).

NOTE 35: EVENTS AFTER BALANCE SHEET DATE

In March 2009, EMGS entered into a global frame agreement with Shell Exploration and Production B.V. The agreement is for provision of EM services for one year, with optional extensions for two additional years.

In April 2009 EMGS entered into a global cooperation agreement with Fugro N.V., the world's leading geotechnical, survey and geoscience company. Under the agreement, Fugro will gain full access to EMGS's marine EM methods for hydrocarbon exploration and production, and EMGS will gain access to Fugro's worldwide marketing network and marine operating expertise. As a part of the agreement, Fugro has provided a NOK 150 million secured convertible loan bearing interest at 7.00% p.a. to EMGS. The loan can at any time be converted into common shares in EMGS at the conversion price of NOK 5.75 until the maturity date on January 2, 2012.

This section

ELECTROMAGNETIC GEOSERVICES ASA

Electromagnetic Geoservices ASA
January 1 - December 31

Income statement

Amounts in NOK 1 000	Note	2008	2007
Operating revenues			
Contract sales	1, 11	**636 931**	757 026
Total operating revenues	-	**636 931**	**757 026**
Operating expenses			
Charter hire, fuel and crew expenses	2, 3, 4	**397 949**	509 342
Employee expenses	5, 6	**222 365**	190 024
Depreciation and ordinary amortisation	7	**130 491**	86 150
Multi-client amortisation	7	**89 030**	-
Other operating expenses	6	**166 180**	167 942
Total operating expenses		**1 006 015**	**953 459**
Operating profit (loss)		**-369 084**	**- 196 433**
Financial income and expenses			
Financial income	16	**115 747**	58 631
Financial expenses	16	**111 964**	120 946
Net financial items		**3 783**	**-62 315**
Income (loss) before tax		**-365 301**	**-258 749**
Income tax expenses	8	**11 457**	11 268
Net income (loss) for the year		**-376 758**	**-270 017**
For information:			
Dividend		**-**	-

Electromagnetic Geoservices ASA
As at December 31

Assets

Amounts in NOK 1 000	Note	2008	2007
Non-current assets			
Intangible assets			
Patents	7, 9	**5 000**	6 500
Software, licenses etc.	7, 9	**16 928**	14 278
Total intangible assets		**21 928**	**20 778**
Property, plant and equipment	7, 9	**245 895**	**283 558**
Financial assets			
Investment in subsidiaries	10	**5 334**	15 164
Interest in joint ventures	17	**70 961**	72 325
Total financial assets		**76 295**	**87 489**
Total non-current assets		**344 118**	**391 825**
Current assets			
Inventories	3	**58 668**	70 254
Total inventories		**58 668**	**70 254**
Receivables			
Trade receivables	9, 11 ,12	**61 300**	176 579
Receivables group companies	12	**62 362**	31 082
Other receivables		**91 498**	74 360
Total receivables		**215 160**	**282 021**
Cash and cash equivalents	13	**168 510**	**186 061**
Total current assets		**442 338**	**538 336**
Total assets		**786 456**	**930 161**

Electromagnetic Geoservices ASA
As at December 31

Equity and liabilities

Amounts in NOK 1 000	Note	2008	2007
Equity			
Paid-in capital			
Share capital	14, 15	**22 892**	18 546
Other paid-in capital	14, 15	**29 500**	17 950
Share premium	14, 15	**1 065 748**	816 091
Total paid-in capital		**1 118 140**	**852 587**
Retained earnings			
Other equity (uncovered loss)	15, 16	**-637 714**	-261 183
Total retained earnings		**-637 714**	**-261 183**
Total equity		**480 426**	**591 404**
Liabilities			
Provisions			
Pension liabilities	5	**30 742**	13 578
Total provisions		**30 742**	**13 578**
Other long-term liabilities			
Borrowings	7, 9	**19 454**	5 757
Total other long-time liabilities		**19 454**	**5 757**
Current liabilities			
Borrowings	9	**35 686**	62 902
Trade payables		**135 723**	153 233
Current tax liability	8	**22 884**	24 879
Public taxes and duties payable		**12 776**	33 783
Other current liabilities		**48 765**	44 625
Total current liabilities		**255 834**	**319 422**
Total liabilities		**306 030**	**338 757**
Total equity and liabilities		**786 456**	**930 161**

Electromagnetic Geoservices ASA
January 1 - December 31

Cash flow statement

Amounts in NOK 1 000	2008	2007
A) Cash flow from operating activities		
Funds sourced from operations *)	**-146 213**	-160 307
Changes in inventories, accounts receivable and accounts payable	**78 076**	22 787
Changes in other accrual items	**-12 887**	-15 845
Net cash flow from operating activities	**-81 024**	**-153 365**
B) Cash flow from investing activities		
Purchase of property, plant and equipment	**-189 053**	-224 746
Disposal property, plant and equipment	**625**	-
Net purchase and proceeds from other investments	**9 830**	-11 892
Interest in joint ventures	**1 364**	-72 325
Net cash flow from investing activities	**-177 234**	**-308 963**
C) Cash flow from financial activities		
Proceeds from debt raised (long- and short term)	**53 356**	8 995
Reduction of long term debt	**-26 448**	-157 993
Net change in bank overdraft	**-40 427**	-17 311
Proceeds from equity paid-in	**253 999**	694 401
Group contribution	**227**	-
Net cash flow from financial activities	**240 707**	**528 092**
A+B+C) Net change in cash and cash equivalents	**-17 551**	65 764
Cash and cash equivalents at 01.01	**186 061**	120 297
Cash and cash equivalents at 31.12	**168 510**	**186 061**
Calculation of cash and cash equivalents		
Cash and cash equivalents	**162 251**	180 110
Employee withholding taxes	**6 259**	5 951
Cash and cash equivalents at 31.12	**168 510**	**186 061**
***) Calculation of funds sourced from operations**		
Net profit (loss) before income taxes	**-365 301**	-258 749
Depreciation and amortisation	**219 521**	86 150
Income tax expense	**-11 457**	-11 268
Option cost	**11 549**	8 060
Profit (loss) disposal property, plant and equipment	**-525**	-
Calculated interest and convertible bonds	**-**	15 500
Funds sourced from operations	**-146 213**	-160 307

Notes

ACCOUNTING PRINCIPLES

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

Use of estimates
The management has used estimates and assumptions that have affected assets, liabilities, income, 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 liabilities 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's 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.

Research costs are expensed as they are incurred.

Multi-client library
The multi-client library consists of surveys of electromagnetic data. The surveys can be licensed to customers on a non-exclusive basis. Directly attributable costs associated with the production and development of multi-client projects such as acquisition costs, processing costs and direct project costs are capitalised as incurred.

The Company recognises pre-funded revenue after the percentage of completion method. Late sale revenue is recognised when a valid licensing agreement is signed and the multi-client library data made accessible to the customer.

The Company amortises its multi-client library primarily based on the ratio between the cost of the surveys and the total forecasted sales for such surveys. Surveys are categorised into four amortisation categories with amortisation rates of 90%, 75%, 60% or 45% of sales amount. Classification of a project into a rate category is based on the ratio of its remaining net carrying value to its remaining sales estimate. Amortisation is recorded each time there has been a multi-client sale on surveys with a carrying value higher than zero.

The Company also applies minimum amortisation criteria for the library projects based on a three-year life. The three-year period is starting in the year after data delivery (year after completion). Under this policy, the book value of each survey is reduced to a specified percentage by each quarter end, based on the age of the survey. The calculation of minimum amortisation is recorded quarterly after amortisation of sales.

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

Amounts in NOK 1 000	2008	2007
Geographical distribution		
Norway	215 194	268 887
Other countries	421 738	488 139
Total	**636 931**	**757 026**

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

NOTE 2: GOVERNMENT GRANTS

In 2008 the Company received grants of 655 from the Norwegian Research Council. The grant is set off against the relevant expenses.

NOTE 3: INVENTORIES

Amounts in NOK 1 000	2008	2007
Inventory type		
Equipment, components and parts	42 623	47 255
Anchors and batteries	7 502	7 756
Fuel	8 543	15 243
Total	**58 668**	**70 254**

NOTE 4: OPERATING LEASES

Amounts in NOK 1 000	2008	2007
Operating leases recognised as expense in the period		
Charter hire	246 159	226 409
Office premises	10 012	4 717
Total	**256 171**	**231 126**

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.

	2008	2007
Number of employees included in the defined benefit plan	199	188

Amounts in NOK 1 000	2008	2007
Accrued pension obligations at December 31	32 998	18 555
Estimated effect of future salary increase	28 615	22 085
Estimated pension obligations at December 31	**61 613**	**40 640**
Fair value of plan assets	-18 235	-19 917
Actuarial losses/(gains)	-16 435	-8 823
Social security tax	3 799	1 678
Net pension obligations	**30 742**	**13 578**
Current service cost	21 512	12 456
Interest cost	1 910	954
Expected return on plan assets	- 1 354	-788
Administration fee	154	192
Amortisation of actuarial (gain)/loss	254	61
Social security tax	3 133	1 815
Benefit expenses	**25 610**	**14 690**
Principal assumptions:		
Discount rate	3,80 %	4,70 %
Expected rate of return on pension plan assets	5,80 %	5,75 %
Expected future salary increases	4,00 %	4,50 %
Expected adjustments in National Insurance base rate	3,75 %	4,25 %
Expected rate of pension increase	3,75 %	4,25 %
Social security tax	14,10 %	14,10 %

NOTE 6: REMUNERATION

The average number of employees during 2008 was 222.

Amounts in NOK 1 000	2008	2007
Wage costs:		
Salaries	161 424	135 499
Payroll tax	13 947	24 876
Pension costs	25 610	14 690
Other payments	21 384	14 959
Total	**222 365**	**190 024**

Executive Management remuneration for the EMGS Group

Amounts in NOK 1 000		Salaries	Bonus	Share options	Pension benefit	Other benefits	**Total remuneration**
Executive Management							
Terje Eidemo, President & CEO		2 503	-	3 766	110	126	**6 505**
Roar Bekker, COO		1 829	-	1 695	127	106	**3 757**
Svein T. Knudsen, CFO		1 581	-	2 608	104	128	**4 421**
Anette Mellbye, CLC		991	-	689	121	15	**1 816**
Frank Maaø, CTO	01.07 - 31.12	550	-	292	49	5	**896**
Svein Ellingsrud, CTO	01.01 - 30.06	719	-	1 689	65	35	**2 508**

Payment after termination of employment

The President is entitled to 2 years of pay after termination of contract, while the other members of the Executive Management, are entitled to 1 year pay.

Remuneration policy:

All members of the Executive 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 fulfilment of EMGS' goals and the individual goals. There are also car allowance agreements in place for most of the Executive Management Group and the Group is included in the Company's ordinary pension plan. The policy will be further developed along these lines in 2009.

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

Amounts in NOK 1 000	Directors' fee	Share options
Board of directors		
Bjarte Bruheim, Chairman of the Board	3 706	4 307
David Krieger, Director	-	-
Jeffrey Harris, Director	-	-
Christopher A. Wright, Director	242	150
Trine S. Romuld, Director	258	-
Grete Høiland, Director	175	-
Berit Svendsen, Director	175	-
Bjørn Rosvoll, Employee's representative	-	323
Jens Danielsen, Employee's representative	-	323

The amounts listed under Directors' fee have been expensed in 2008.

Payment after termination

The Chairman of the Board is entitled 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.

	Number of options OB	Granted options	Forfeited options	Terminated options	Exercised options	Weighted average exercise price A	Number of options CB	Weighted average exercise price B	Weighted average remaining contractual life
Management									
Terje Eidesmo	450 000	400 000	-	-	-	-	850 000	23,34	5,2
Roar Bekker	-	525 000	-	-	-	-	525 000	30,88	6,6
Svein Tore Knudsen	200 000	300 000	-		40 000	10,95	460 000	27,30	6,0
Anette Mellbye	-	90 000	-	-	-	-	90 000	38,67	6,4
Frank Maaø	6 000	70 000	-	-	-	-	76 000	29,68	6,5
Svein Ellingsrud	110 000	-	-	40 000	70 000	15,25	-	-	-
Board									
Bjarte Bruheim	355 000	-	-	-	-	-	355 000	17,31	3,5
Christopher A. Wright	40 000	-	-	-	20 000	-	20 000	10,95	2,5

A - average exercise price for options exercied during 2008.
B - average exercise price for number of options by 31 December 2008.

Loans and guarantees

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

Amounts in NOK 1 000	**2008**	2007
Auditor expenses		
Statutory audit services (excl. VAT)	**1 199**	2 637
Tax advisory services (excl. VAT)	**681**	-
Further assurance services	**220**	-
Other non-audit services	**619**	4 348
	2 719	**6 985**

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.	Multclient	Total
Acquisition cost at January 1 2008	474 472	15 000	21 680	-	**511 152**
Purchases	89 837	-	10 187	89 030	**189 054**
Disposals	-9 437	-	-	-	**-9 437**
Acquisition cost at December 31 2008	554 872	15 000	31 867	89 030	**690 769**
Accumulated depreciation January 1 2008	190 916	8 500	7 401	-	**206 817**
Depreciation/amortisation for the year	121 453	1 500	7 537	89 030	**219 520**
Disposals	-3 392	-	-	-	**-3 392**
Accumulated depreciation December 31 2008	308 977	10 000	14 938	89 030	**422 946**
Net book amount December 31 2008	245 895	5 000	16 928	-	**267 823**
Depreciation rate (%)	20-33	10	33	100	

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 2008 amounted to 41 632 (2007:70 519)

Finance leases are capitalised at the lease's commencement at the lower of the present value and cost.
The leasing contracts have 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.

Amounts in NOK 1 000	2008	2007
Capitalised in the balance sheet December 31	**89 397**	35 573
Accumulated depreciation	**-35 725**	-15 044
Net book amount	**53 673**	**20 529**
Depreciation	**20 681**	8 680

	2008		2007	
Amounts in NOK 1 000	Nominal value	Present value	Nominal value	Present value
Leases due within 12 months	**25 427**	**22 956**	9 848	9 745
Leases due within the next 13 - 60 months	**20 577**	**19 457**	6 585	5 763
Remaining debt on leasing contracts December 31	**46 004**	**42 413**	**16 433**	**15 508**

Amounts in NOK 1 000	2008	2007
Specification of R&D expenses		
External expenses	**1 250**	5 616
Materials	**4 900**	5 013
Internal time	**10 645**	9 095
Research grants	**-5 634**	- 10 531
Total R&D expenses	**11 160**	**9 193**

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

NOTE 8: INCOME TAXES

Amounts in NOK 1 000	2008	2007
Taxes base specification		
Profit before tax	**-365 301**	-258 749
Permanent differences	**2 178**	-46 094
Changes in temporary differences	**55 162**	22 314
Tax expenses abroad, paid	**-11 599**	-11 851
Taxable profits before utilisation of unused tax losses	**-319 560**	**-294 380**
Tax losses carried forward	**319 560**	294 380
Taxable profit (this year tax base)	**-**	**-**
Income tax expenses		
Non-creditable foreign income taxes	**11 457**	11 268
Total income tax expense	**11 457**	**11 268**
Temporary differences		
Fixed assets	**-68 881**	-24 669
Accounts receivable	**-9 705**	-25 242
Provisions tax liability abroad	**-24 080**	-24 879
Pension obligations	**-30 742**	-13 578
Tax losses carried forward	**-690 698**	-371 138
Total temporary differences	**-834 228**	**-459 506**
Non-recognised deferred tax asset	**-233 584**	**-128 662**

Amounts in NOK 1 000	Tax base	28 % tax
Explanation why the tax is not 28% of income before tax		
28 % tax of income before tax	-365 301	-102 284
Permanent difference	-	610
Other permanent difference (foreign income tax)	-	-3 248
Change in deferred tax assets, not recognised	-	104 922
Non-creditable foreign income taxes	-	11 457
Calculated tax	-	**11 457**
Effective tax rate in %		-3,2 %

Amounts in NOK 1 000	Amount	Applied	Rest
Tax loss carry forward			
2002	29 285	29 285	-
2003	6 332	6 332	-
2004	80 381	26 721	53 660
2005	23 099	-	23 099
2007	294 380	-	294 380
2008	319 560	-	319 560
Total	**753 036**	**62 338**	**690 698**

Unused tax losses can be carried forward indefinitely.

NOTE 9: COLLATERALS

Long-term liabilities due in more than five years from December 31 2008 are 0.

Amounts in NOK 1 000	2008	2007
Collaterals		
Debts secured by pledge	**55 140**	68 659

The debt is a credit facility with due date in May 2009, terms are LIBOR 7 days + 2.30% p.a.

Amounts in NOK 1 000	2008	2007
Pledge assets		
Accounts receivable	**61 300**	176 579
Leasing	**19 454**	12 905
Cluster	**32 450**	2 603
Patents	**5 000**	6 500
Total carrying value of pledged assets	**118 204**	**198 587**

The pledge is established as security for an unutilised credit facility.

As per 31 December 2008 the total pledge is 14 110 (2007: 12 907).

NOTE 10: INVESTMENT IN SUBSIDIARIES

Company	Share ownership/ voting rights 2008	Profit/loss 2008	Equity 31.12.08	Location
EMGS Americas 1 AS	100 %	2	99	Trondheim, Norway
EMGS Americas 2 AS	100 %	2	97	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	205	347	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	99 %	9 086	14 712	Rio de Janeiro, Brasil
EMGS Americas Inc	100 %	1 244	-9 671	Delaware, USA
EMGS International B.V.	100 %	-60	-138	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	49 %	- 2 316	169	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100 %	925	1 310	Kuala Lumpur, Malaysia
Global EMGS Nigeria Ltd	35 %	-108	-134	Lagos, Nigeria
EMGS Australia Pty Ltd	100 %	-136	-77	Perth, Australia
EMGS AS	100 %	1	101	Trondheim, Norway
Total		**8 844**	6 815	

NOTE 11: ON-GOING PROJECTS

Part of accounts receivable which is recognised in 2008, but not invoiced per December 31 2008 amounts to 12 613.
There is no deferred revenue as of December 31 2008.

The Company does not expect any loss on contracts in 2008.

NOTE 12: RECEIVABLES

There has been made provision for doubtful receivables per December 31 2008 of 9 705.

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

Amounts in NOK 1 000	2008	2007
Intercompany balances with group companies		
Trade receivables	-	-
Other receivables	**62 135**	31 082
Total intercompany receivables	**62 135**	**31 082**
Short term liabilities	-	-
Total intercompany liabilities	-	-

NOTE 13: BANK DEPOSITS

Restricted cash related to employee tax was 6 259 as of December 31 2008.

NOTE 14: SHARE CAPITAL AND SHAREHOLDER INFORMATION

The Company's share capital consists of 91 569 261 shares at a par value of NOK 0,25, giving a total share capital of 22 892

	Number of ordinary shares	Percentage
Number of shareholders		
Warburg Pincus	61 873 434	67.57 %
Bruheim Bjarte Henry	2 350 088	2.57 %
JPMorgan Chase Bank	2 041 600	2.23 %
UBS AG, London Branch	1 688 900	1.84 %
Birkeland Gunnar Michael	1 142 000	1.25 %
Ellingsrud Svein	910 214	0.99 %
Eidesmo Terje	854 214	0.93 %
Bankenes Sikringsfond Lend ACC	683 900	0.75 %
Strack Kurt Martin	563 011	0.61 %
JPMorgan Chase Bank	561 550	0.61 %
Citibank N.A. (London Branch)	475 463	0.52 %
Krosshø AS	472 881	0.52 %
Johansen Ståle Emil	422 214	0.46 %
Alden AS	376 000	0.41 %
Goldman Sachs & CO - Equity	334 653	0.37 %
Terra Norge, VPF	321 000	0.35 %
UBS AG New York Branch P	320 000	0.35 %
Tannreg Invest AS	300 000	0.33 %
Pensjonskassen StatoilHydro	285 965	0.31 %
AG Invest	278 400	0.30 %
Others	15 313 774	16.72 %
Total	**91 569 261**	**100.00 %**

	Shares
Leading representatives of the Company hold the following shares	
President	854 214
Board of Directors	1 856 815

NOTE 15: EQUITY

Amounts in NOK 1 000	Share capital	Share premium	Other paid-in capital	Other equity (uncovered loss)	**Total**
Equity January 1 2008	**18 546**	**816 091**	**17 950**	**-261 183**	**591 404**
Shares registered	-	-	-	-	**-**
Share-based payments	-	-	11 550	-	**11 550**
Proceeds from Rights Issue	4 128	234 806	-	-	**234 806**
Proceeds from consideration in costs of Rights Issue	110	6 498	-	-	**6 608**
Proceeds from options exercised	92	5 437	-	-	**5 529**
Use of shares for consideration acquired interest in joint venture	16	2 916	-	-	**2 932**
Group contribution	-	-	-	227	**227**
Profit for the year	-	-	-	-376 758	**-376 758**
Equity December 31 2008	**22 892**	**1 065 975**	**29 500**	**-637 714**	**480 426**

NOTE 16: FINANCIAL ITEMS

Amounts in NOK 1 000	**2008**	2007
Financial income		
Interest income on short term bank deposit	**7 662**	17 945
Foreign exchange rate gains	**108 085**	40 686
Total financial income	**115 747**	**58 631**

Amounts in NOK 1 000	**2008**	2007
Financial costs		
Interest expense	**22 106**	22 175
Foreign exchange rate losses	**83 460**	98 211
Other financial expenses	**6 398**	20
Total financial costs	**111 964**	**120 946**
Net financial gain/(loss)	**3 783**	**-62 315**

NOTE 17: INTEREST IN A JOINT VENTURE

EMGS has a 50 % interest in KJT Inc, USA, a jointly controlled entity which has a technology for shallow water surveys.

Amounts in NOK 1 000	2008	2007
Total equity in the company	9 131	2 959
Net income for the year in the company	4 271	616
Book value	70 961	72 325

Trondheim, 25 March 2009

Bjarte H. Bruheim
Chairman of the Board

Berit Svendsen

Grethe Høiland

Christopher Alan Wright

David Benjamin Krieger

Jeffrey Alan Harris

Bjørn Henry Rosvoll

Jens Ensted Danielsen

Roar Bekker
CEO

ERNST & YOUNG

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Electromagnetic Geoservices ASA

Auditor's report for 2008

We have audited the annual financial statements of Electromagnetic Geoservices ASA as of 31 December 2008, showing a loss of NOK 376.758.000 for the Parent Company and a loss of USD 65.769.000 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 changes in 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 2008, 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 2008, 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, 28 April 2009
ERNST & YOUNG AS
Anders Gøbel
State Authorised Public Accountant (Norway)
(sign)
Note: The translation to English has been prepared for information purposes only.

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