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visit our website *EMGS.COM*
or call your nearest EMGS office.

EMGS ANNUAL REPORT 2009

EMGS ANNUAL REPORT 2009

emgs

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.

Three service offerings - Clearplay Find, Test and Evaluate - have been designed to assist operators in the exploration and production phase. Clearplay supports each stage in the workflow, from survey design and data acquisition to processing and interpretation. The services enable integration of EM data with seismic and other geophysical and geological information to give explorationists a clearer and more complete understanding of the subsurface. This improves exploration efficiency, and reduces risk and finding costs per barrel.

EMGS operates the world's first purpose-built 3D EM vessel fleet and has conducted more than 450 surveys to improve drilling success rates across the world's mature and frontier offshore basins. The company operates on a worldwide basis with main offices in Trondheim and Stavanger, Norway; Houston, USA; and Kuala Lumpur, Malaysia.

CONTENTS

GLOBAL EXPERIENCE

We have conducted over 450 surveys to reduce exploration risk and improve drilling success rates across the world's mature and frontier basins for more than 40 customers, including the world's leading energy companies.

Our products and services help a range of exploration and production companies and government agencies, and can be used to:

- Provide early indications of hydrocarbon prospectivity in frontier areas
- Find bypassed and satellite fields in mature areas
- Test and rank seismic prospects
- Prioritise drilling locations
- Improve delineation of reservoirs

Our track record within marine EM includes:

- Operational experience: More than 18 vessel years of continuous operation
- Minimum water depth: 48 metres
- Maximum water depth: 3400 metres
- Receiver drops: 20 353
- Source towing: 71 725 km

EMGS MAIN OFFICE AND SUBSIDIARIES
EMGS Headquarters
Trondheim, Norway

Europe, Africa & Middle East Business Unit
Stavanger, Norway

North & South America Business Unit
Houston, USA

Asia Pacific Business Unit
Kuala Lumpur, Malaysia

OTHER OFFICES
Oslo, Norway
Aberdeen, United Kingdom
Rio de Janeiro, Brazil
Mumbai, India
Cairo, Egypt
Perth, Australia
Lagos, Nigeria
Cape Town, South Africa
Jakarta, Indonesia

LETTER FROM THE CEO

The year 2009 was challenging for EMGS, yet we made significant progress through the launch of our second purpose-built 3D EM vessel, the BOA Galatea, and several landmark projects, including our first commercial Clearplay Evaluate survey and a multi-client campaign off Greenland. We have worked hard to change our business, and I believe we are now in a strong position for the future: capacity is in line with demand, we have a better commercial focus and we are penetrating new markets through a strategic partnership with Fugro.

When I became chief executive officer in May 2009, having held the post in a temporary capacity for six months, I was tasked with restructuring our company to create a more commercially oriented business. I believe that we have emerged from this difficult transition with a business that is financially sustainable in the short term and has the ability to respond profitably to medium- and long-term increases in demand.

Unsurprisingly, given the recent global economic conditions, exploration and production spending has fallen and major projects have been postponed. These conditions have affected geophysical businesses worldwide and, consequently, our revenues have fluctuated. Although I am sure that demand for our services will recover with the world economy, we had to cut our fleet to align capacity with short-term demand and reduce our workforce accordingly.

Decisions that result in redundancies are never easy, but I believe that restructuring our organisation has been necessary and has helped to create a business that is now more efficient and commercial at every level. Key parts of our restructuring have involved rationalising our product development efforts and focusing on selling our existing services. We are working with customers and partners on new research and development programmes, which means that we can share costs and capital expenditure.

In April 2009, as part of our plan to increase our global market penetration, we formed a strategic alliance with Fugro. I see this partnership as a major milestone that gives us access to a worldwide marketing network and marine geoscience operating expertise. EMGS and Fugro share the aim of accelerating the adoption of marine EM technology. We have already jointly implemented tools and methods that help to package marine EM data with seismic and other data – a key element in establishing marine EM surveying as a standard exploration tool.

We also trained more than 70 Fugro staff in EM techniques, which is extending our reach by enabling Fugro to establish marine EM hubs in Perth, Oslo and Houston. I am confident that our joint sales and marketing network will deliver commercial opportunities for both companies. Indeed, we have already identified projects with Fugro in the Gulf of Mexico, the Norwegian Sea and in the Far East.

We are also continuing to build on the success of our multi-client campaigns. In the third quarter, we acquired data in the Fylla East area off Greenland. The demand for multi-client projects clearly shows the value that exploration companies see in combining marine EM data with seismic and other data. The Fylla East campaign was performed with TGS-NOPEC Geophysical Company, which specialises in multi-client services. This partnership is evidence of the growing interest we are experiencing from geophysical service providers and another example of how we are operating efficiently through partnerships.

In July, we completed the restructuring of our fleet with the launch of the BOA Galatea, our second purpose-built 3D EM survey vessel, which joined the BOA Thalassa. We now have two state-of-the-art vessels specifically designed to efficiently acquire large and complex 3D surveys. These vessels have generated considerable interest and respect in the industry. I am delighted that more than 25 clients visited the BOA Galatea following a seminar in Stavanger; one customer returned a few days later with 27 colleagues. Our purpose-built vessels are a major step in offering safe, efficient and high-quality marine EM services. Each vessel carries up to 200 receivers, triple our former capacity, and two sources for full redundancy. We also have a mobile acquisition set which increases our operational flexibility and gives rapid mobilisation across the world.

This year, we have completed several important 3D projects. In August, we acquired a Clearplay Find survey for Cairn Energy in the Disko West area off Greenland, which has helped to reduce risk in a challenging exploration environment. Last year was undoubtedly a breakthrough for our 3D EM services. Almost 95% of our revenue is now generated through 3D EM acquisition and processing services. Another important milestone was our first commercial Clearplay Evaluate survey. This was for Total, a new super-major customer, over the North Sea Frigg field. I am confident that this detailed reservoir characterisation survey will become a valuable showcase for our advanced products and services.

In December, we completed a private placement that increases our company's financial strength and enables us to support our plans for the coming year.

Despite notable achievements, 2009 was a challenging year with too few contracts. However, I am proud of the way we have faced the short-term reduction in exploration and production spending, restructured for the prevailing conditions and set ourselves up for the future.

I am optimistic about 2010 for three reasons. First, we are in good shape through having reduced our operating costs and aligned capacity with demand. Second, we can conduct large and complex surveys efficiently using our core fleet of two purpose-built, high-capacity 3D EM survey vessels. Third, we are receiving more invitations to tender, are engaged in promising negotiations with target customers and have increased global market penetration through our Fugro partnership, so I believe that operating profits are within reach for the financial year 2010. The dedication of our team convinces me that we will succeed in converting these encouraging signs into profitable contracts.

I wish to sincerely thank everyone in EMGS for their support in 2009. Their professionalism and commitment during this difficult year fill me with confidence for the year ahead.

Yours sincerely,

Roar Bekker
Chief Executive Officer

EMGS EMPLOYEES

The EMGS team is dedicated to helping oil and gas operators improve their exploration performance and increase the likelihood of finding offshore hydrocarbons. Our highly motivated workforce includes survey personnel, geoscientists, physicists and engineers.

Dedicated research and development personnel are continually improving the design of our survey equipment and modelling and processing capabilities.

Our first-rate crews have extensive and unmatched experience of marine EM operations.

PURPOSE-BUILT 3D EM VESSEL FLEET

BOA Thalassa and BOA Galatea - the world's two first purpose-built EM survey vessels. These state-of-the-art vessels are products of more than a decade of experience from over 450 surveys and 18 vessel years across the world's mature and frontier offshore basins.

Our two purpose-built vessels offer unparalleled capacity and operational efficiency, whilst maintaining the highest safety and environmental standards.

The BOA Galatea and the BOA Thalassa are designed to acquire large and complex 3D surveys efficiently, and operational statistics show each vessel can acquire more than 1000 km^2 of 3D EM data a month.

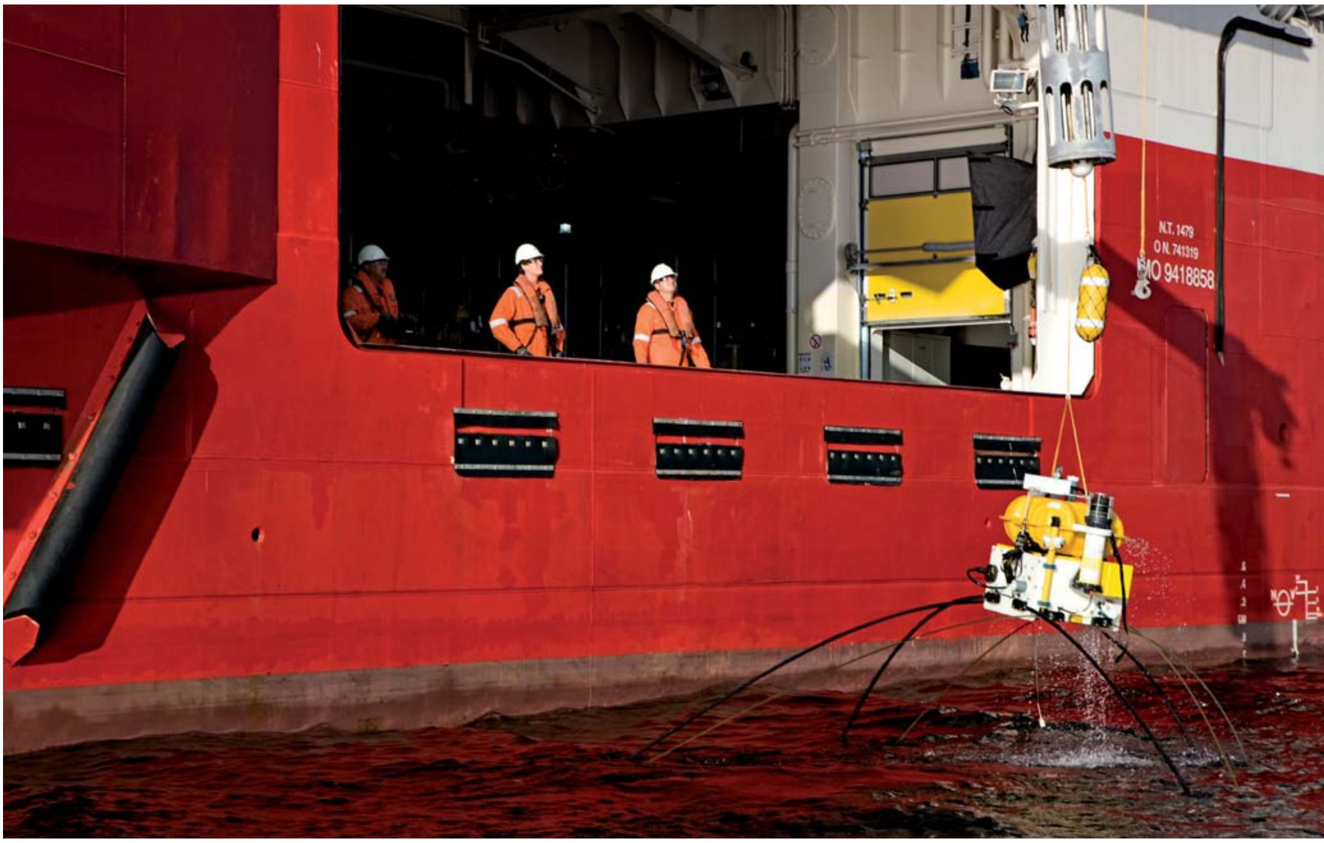
RECEIVER CAPACITY TRIPLED

As for marine 3D seismic, deploying a large, dense array of receivers provides the biggest productivity gains in 3D EM surveying. Our new vessels have the ability to manage and deploy up to 200 receivers – triple our former capacity. Not only does this enable us to perform larger and more complex surveys, it also provides more EM data points per square kilometre, which, in turn, means improved data quality.

TWO SOURCES FOR FULL REDUNDANCY

Our 3D EM vessels' fully integrated spare equipment sets offer two parallel source systems, including

Sheltered deck and workspaces mean safer operating conditions, as well as increased efficiency. The vessels are designed by EMGS to provide optimum performance and quality for 3D EM acquisition.



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

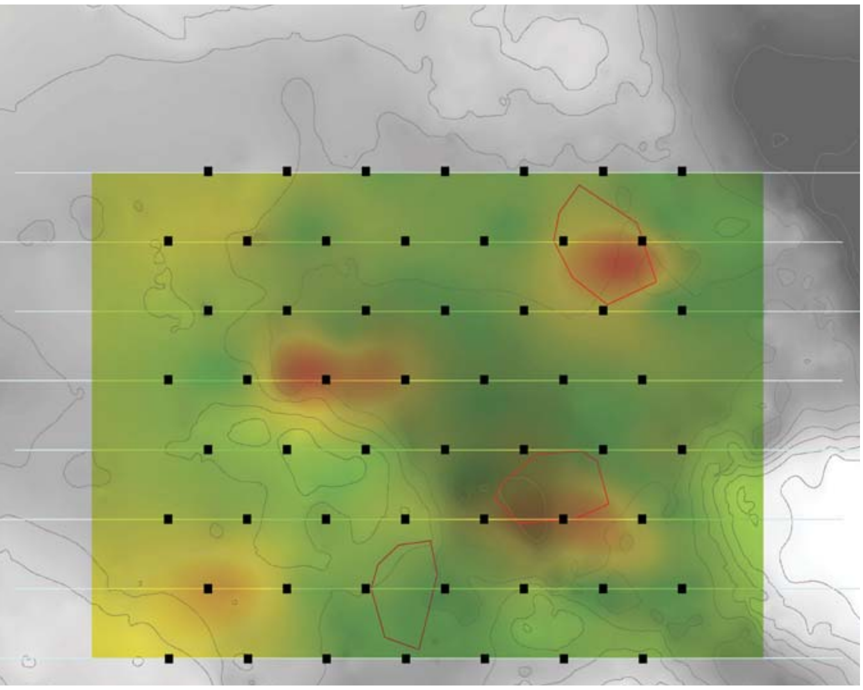
winches, cranes and hydraulic feeds. This ensures continuous operation in remote areas and cuts technical downtime to a minimum, which reduces the delivery time for EM data.

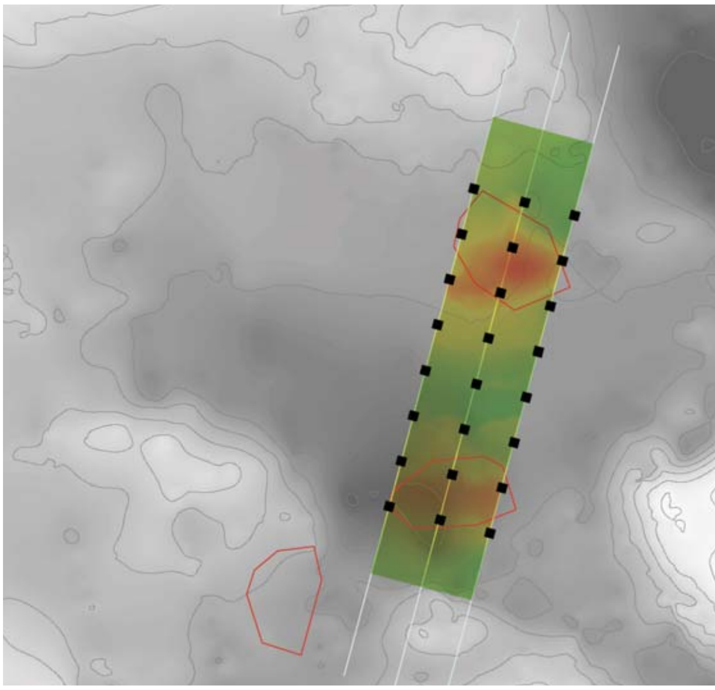
HSE BY DESIGN

Health, safety and environment (HSE) standards are fundamental to all that we do at EMGS, and they were an integral part of the vessels' design process. Each vessel features a fully enclosed and automated work environment for safer and more efficient source and receiver deployment. This also offers the potential for higher productivity by increasing the operational weather window.

The vessels' high speed, large fuel and storage capacities, and efficient fuel consumption improve surveying efficiency and endurance time.

SERVICES: REDUCING EXPLORATION RISK





Left: 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.

Right: 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.

Three service offerings have been designed to support oil and gas companies during the exploration and production phase.

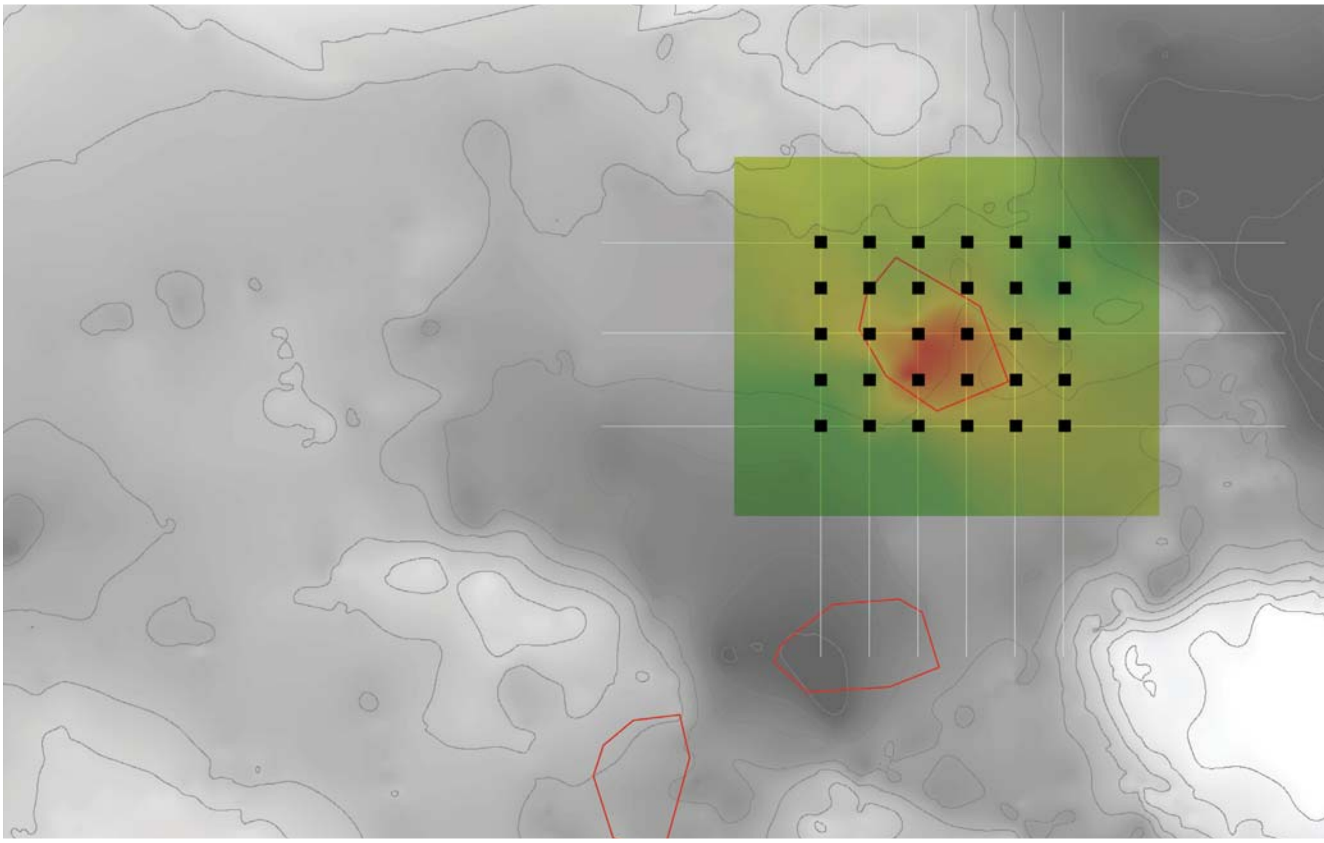
Our services provide an improved geological understanding of the subsurface with reduced environmental impact. The overriding aim is improved efficiency and reduced economic risk.

We support each stage in the workflow, from survey design and data acquisition to processing and interpretation. Our services enable integration of EM data with seismic data and other geophysical and geological information to give explorationists a clearer and more complete understanding of the subsurface.

CLEARPLAY FIND

This service provides good indications of hydrocarbon prospectivity in early-stage exploration, pre- or post-licensing, and is used to rapidly generate leads and prospects over large areas. It can also validate and rank existing leads and prospects.

Below: This example map shows a high density grid, typically with receivers spaced 0.5–1.5 km apart above the target prospect. Our Clearplay Evaluate services provide an improved estimation of the volume and distribution of hydrocarbons present within the prospect.



Clearplay Find is used at a similar stage of the exploration workflow to that of 2D seismic, and it helps to target 3D seismic and Clearplay Test efforts at the areas more likely to have accumulations of hydrocarbons.

Additionally, our customers can use this service to search for missed opportunities in mature areas.

CLEARPLAY TEST

Clearplay Test is typically used to de-risk a portfolio of prospects in a given area. The resistivity information provides valuable input to the ranking of prospects - prior to deciding on drilling targets. Ultimately, the results include increased discovery rate and fewer dry wells.

This service is used at a similar stage in the exploration workflow to that of 3D seismic. It provides resistivity information before drilling, and when interpreted alongside other subsurface measurement, upgrades or downgrades prospects in the portfolio. The service can also provide an improved estimation of the total hydrocarbon volume. After the first exploration well has been drilled, Clearplay Test can be applied to search for other prospects with similar resistivity signature in the same area.

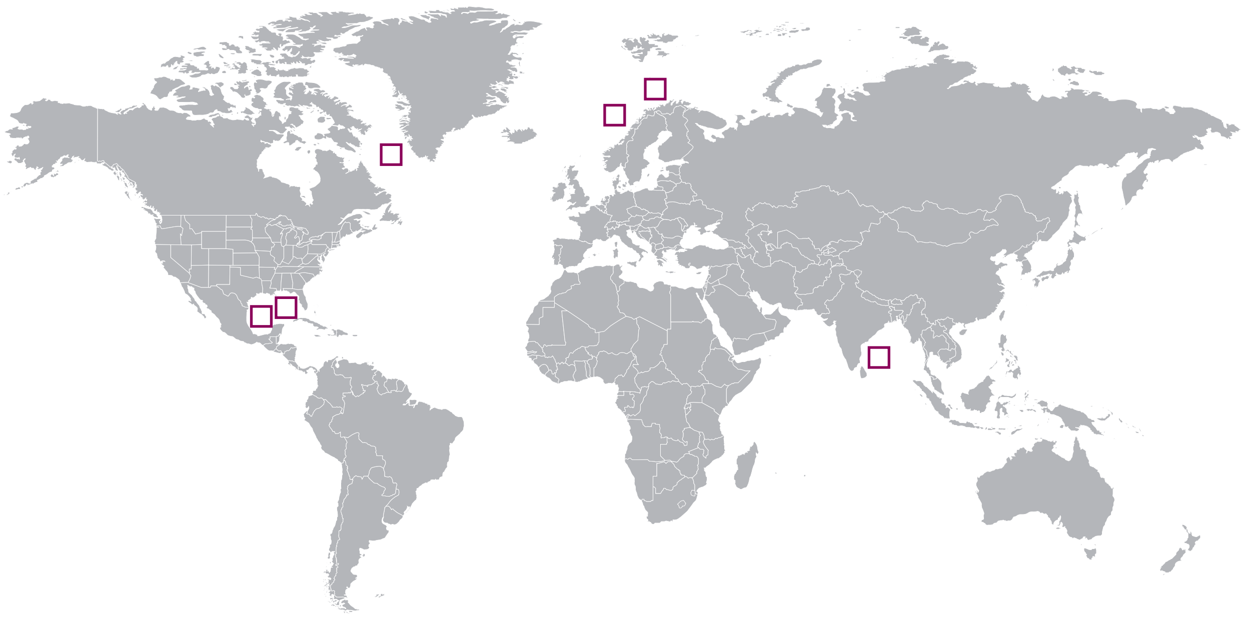
CLEARPLAY EVALUATE

Our Clearplay Evaluate service is applied after a successful exploration well has been drilled, or in the appraisal and production phase.

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.

The service has the potential to reduce the number of appraisal wells drilled, thereby producing significant cost savings.

EMGS provides multi-client 3D EM data that can be integrated with regional geological information and seismic data to reduce risk and create new exploration opportunities.



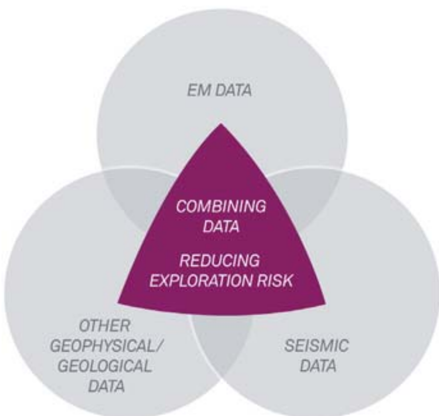
MULTI-CLIENT DATA LIBRARY

MULTI-CLIENT LIBRARY

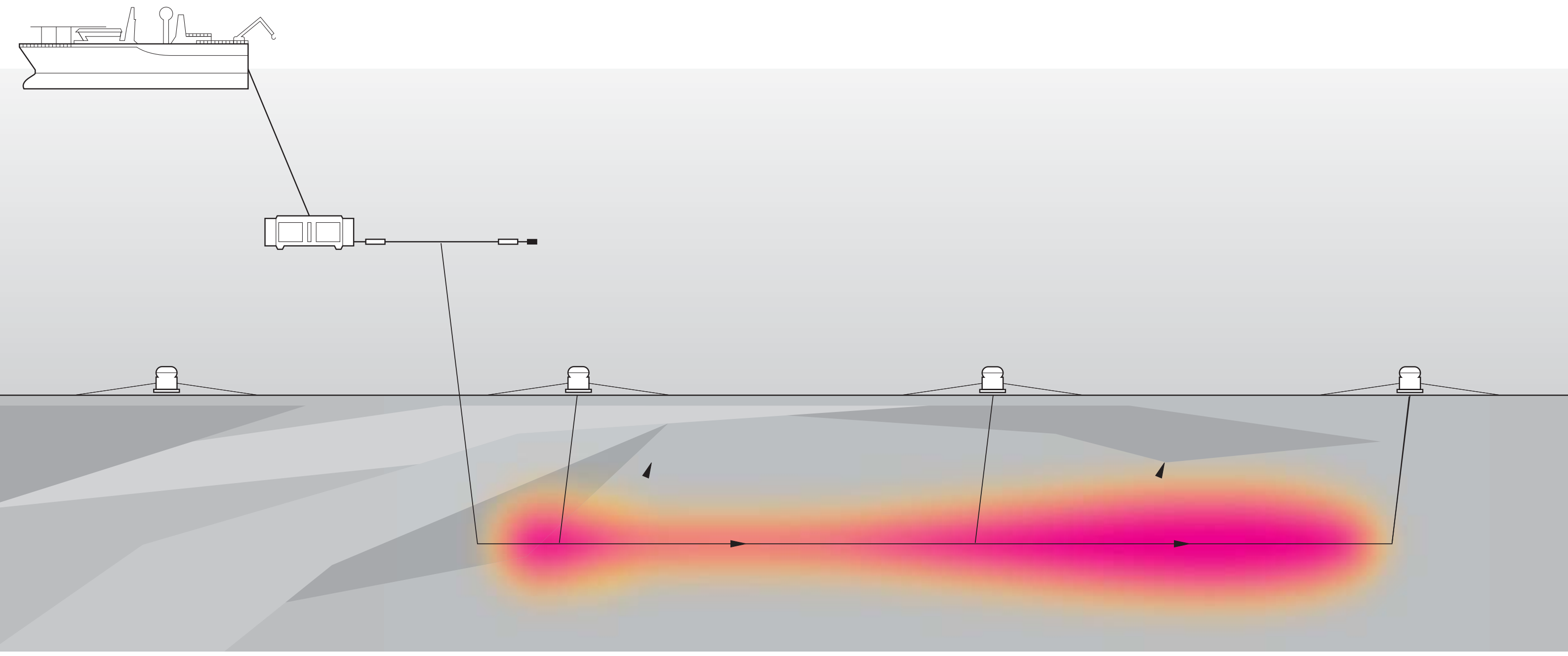
EMGS provides subsurface resistivity data that can be integrated with regional geological information and seismic data to reduce risk and create new exploration opportunities. Our 3D EM multi-client data provide good indications of hydrocarbon prospectivity in early-stage exploration, pre- or post-licensing, and is used to rapidly generate leads and prospects over large areas. Whether our customers are looking for new prospects or trying to understand basin geology, 3D EM data are essential for any operator developing an exploration strategy for a frontier area.

FUGRO-EMGS ALLIANCE

In April 2009, EMGS and Fugro entered into a global cooperation agreement aimed at establishing marine EM as a standard tool for the oil & gas explorationist. Jointly, the two companies provide tools and methods to package seismic with EM as well as other non-seismic data sets and will continue to develop integration tools further. One of the key benefits of the alliance will be the integration of EM and seismic data.



TECHNOLOGY



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.

Marine EM, or CSEM (controlled-source electromagnetic surveying technology), relies on the difference in the electrical resistivity between oil- and water-bearing sediments beneath the seabed. Hydrocarbon saturated sediments display higher resistivity than water-filled sediments. This observation has been used for decades by the borehole logging community to confirm oil in place.

What EMGS has achieved, where many others have previously failed, is to apply this principle to the remote indication of hydrocarbons - that is, to measure subsurface resistivity from the seabed.

Marine EM is a perfect partner for seismic exploration techniques, which provide a structural picture of the subsurface.

ENVIRONMENT

In environmentally sensitive areas, marine EM can reduce the number of wells and target further exploration efforts.

Our technology can lessen the environmental impact of drilling, by reducing the number of wells required to find and appraise hydrocarbon reservoirs. Several independent studies, including studies from ExxonMobil, Apache and Woodside Energy, have examined the environmental effects of marine EM. All of these studies concluded that marine EM surveys were environmentally friendly and did not harm sea life.

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. This means that after a survey the concrete anchors are reduced to disaggregated sand, leaving no discernible survey footprint and no hazard to sub-sea operations or fishing.

Our source is designed, and proven, to have no adverse impact on marine life. The electric fields generated by the source are comparable with the electric fields generated by household appliances such as televisions.

Environmentally benign exploration: In sensitive areas, marine EM can reduce the number of wells and target further exploration efforts.

DIRECTORS REPORT

Electromagnetic Geoservices ASA ("EMGS" or the "Company") and its subsidiaries (together the "Group") is recognised as the world leader in the use of controlled-source electromagnetic ("EM") surveying technology in the offshore oil and gas exploration industry.

The integration of EM methods into exploration workflows provides oil and gas companies with a far more efficient de-risking tool than using traditional exploration techniques alone. Through the use of EMGS's EM technology, the Company's customers have seen the probability of detecting oil and gas reservoirs increase substantially.

EM technology significantly increases the exploration success rate compared to using seismic surveying techniques alone. The technology is not a replacement for seismic methods, but is complementary, providing greater certainty of discovery before drilling. Integration of EM-surveying technology into the exploration workflow reduces exploration risk and costs.

EMGS remains a global leader in the planning, acquisition, processing, modelling, interpretation and integration of EM data. EMGS has extensive experience, well established routines and leading edge processing and modelling software.

EMGS has over the past years significantly improved its service offering after having successfully launched its 3D EM products. EMGS's newly launched purpose-built 3D EM vessel fleet offers unparalleled capacity and operational efficiency, whilst maintaining the highest safety and environmental standards.

EMGS has conducted over 450 surveys to reduce exploration risk and improve drilling success rates across the world's mature and frontier basins - in water depths ranging from 48 to 3400 meters - for more than 40 clients.

EMGS has time chartered two purpose-built vessels on long-term charters. The first one, the "BOA Thalassa" was delivered in December 2008 and the second "BOA Galatea" was taken into operation in July 2009. The two chartered survey vessels, each fitted with custom designed equipment that can be efficiently containerised and transported to other suitable vessels, are enabling EMGS to deliver cost-effective and operationally efficient survey solutions worldwide.

Activities are coordinated from EMGS's headquarters in Trondheim and the business unit centers in Houston, Stavanger and Kuala Lumpur. The Group also has offices in Oslo, Aberdeen, Rio de Janeiro, Mumbai, Cairo, Perth, Lagos, Cape Town and Jakarta. EM surveys have been conducted in a variety of operating conditions and in virtually every major basin around the world. After having introduced 3D products and shallow water products in 2008, the Company has in 2009 focused on the launch of commercial processing software for EM Data, which makes it possible to perform anisotropic inversions of EM Data.

2009 was a challenging year for the Group with reduced demand for EM products, and this resulted in a need to reduce the fleet and the workforce. For the year ended December 2009, the Group generated gross revenues of approximately United States dollars ("USD") 59.0 million, operating loss of approximately USD 63.4 million and negative EBITDA of approximately USD 39.7 million.

Terje Eidesmo, former CEO, was on sick leave from late 2008 until May 2009. Roar Bekker acted as CEO during this period and on 26 May 2009 he took over as CEO. Terje Eidesmo has been appointed as Executive Vice President Sales. One of the other founders, Svein Ellingsrud, returned to work for the Company on projects to enhance adoption of the technology and sales. The Board is pleased that two of the founders are still working for the Company.

As a consequence of the reduced demand for EM products, EMGS reduced the fleet by two vessels and carried out a material reduction of the workforce during 2009. In addition, a reorganisation took place to reflect that the Company has gone from research focus to product development and production focus.

EMGS maintains proprietary rights over its equipment, technology and software. This permits the Company to provide superior end-to-end service for customers, 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 products. Three of the Company's method patents have been challenged in court in the Netherlands and the United Kingdom. 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 appealed the decision regarding two of the patents which remain valid pending a final decision. The appeal hearing will take place in April 2010. The patents also remain valid and enforceable in the Netherlands after the court stayed the proceedings until a final decision from the European Patent Office. The Australian Patent Office granted the same three patents in August 2009, despite the opposition filed by competitors in Australia and despite that they had prior knowledge of the UK decision.

In April 2009, EMGS and Fugro N.V. ("Fugro") entered into a global cooperation agreement aimed at establishing marine EM as a standard tool for the oil & gas explorationist.

Fugro is a world leading geotechnical, survey and geoscience company. The main cooperation agreement is effective through 2011.

Under the terms of 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. The 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 2 January 2012.

Both EMGS and Fugro intend to offer oil companies products which integrate EM with other subsurface measurements.

The two companies intend the Fugro-EMGS partnership to be the premier provider of marine EM services, in a market where an increasing number of oil & gas companies regularly use marine EM data to improve and simplify their exploration decision-making.

EMGS will contribute its hardware, software and experience in marine EM data acquisition, processing and interpretation, whereas Fugro will contribute its world-wide sales and marine operations network. One of the key benefits will be the integration of EM and seismic data as well as other non-seismic data sets to improve the interpretation and understanding of the sub-surface.

EMGS and Fugro have established common offices for the designated cooperation teams from both companies in Oslo, Perth and Houston. Both companies expect to see commercial results of the cooperation in 2010. The first joint project was launched in January 2010.

PUBLIC LISTING AND CAPITAL INCREASE

The Company's stock was listed on the Oslo Stock Exchange throughout 2009. The listing took place on 30 March 2007. In December 2009 the Company raised equity capital of approximately USD 22.3 million in a private placement and approximately USD 3.0 million was raised in a subsequent offering from 23 December 2009 until 12 January 2010.

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 delivers 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 our business.

RESEARCH AND DEVELOPMENT

Research and Development ("R&D") is part of the foundation of the Company. EMGS is fully committed to improving its products and developing new applications, which in turn will provide its customers with further improvements in EM results. However, as part of the 2008 - 2009 cost saving project, the Company has reduced capital expenditures on R&D projects with long-term horizons. As the Company acknowledges that R&D has given great results in providing increasingly improved products and enhanced EM as a de-risking tool for the oil companies, the R&D department has been reorganised. It is now integrated into an Acquistion department, with focus on hardware and surveys, and a Solutions department with focus on product development and delivery. In 2009, EMGS, R&D expenditure was USD 2.6 million compared to USD 5.6 million in 2008, these being mainly related to staff costs. 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 2010 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' 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' customers and large oil and gas consuming nations have perceived a growing and potentially lasting imbalance between the supply of and demand for hydrocarbons. The financial turmoil in 2008 and 2009 resulted in a slower market development in 2009 than expected as exploration projects were delayed and companies reviewed their program priorities. However, the Company is experiencing significant interest in its EM products by oil companies.

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

Fleet Status. EMGS currently operates two vessels, reduced from five vessels in 2008 to reflect the reduced demand of for EM surveys. EMGS started using both the purpose-built vessels , the "BOA Thalassa" and the "BOA Galatea", which are the first vessels designed for EM surveys. The average fleet operated for EM surveys in 2009 was 2,5 vessels. The Company had four vessels on time charter in the first half year of 2009 and five in the second half, after the purpose-built "BOA Galatea" was delivered in July 2009. The vessels derigged for EM surveys were sublet to the extent possible throughout the year. The average sublet time was approximately 75%. However, the rates received do not fully cover the time charter hire paid by the Company to the owners. The vessels derigged for EM surveys will be redelivered to their owners at the expiry of the time charters. One vessel will be redelivered March 2010, one in July 2010 and the last one in January 2011.

Vessel Utilisation. 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 and fourth quarter of each year compared to second and third 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 vessels 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. In the year 2009 the revenues in the second and third quarters were reasonably good, while the first and fourth 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 its services 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 and expenses line item of its consolidated income statement.

RESULTS OF OPERATIONS

Below, the year ended 31 December 2009 is compared to the year ended 31 December 2008.

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

Operating Revenue

Total revenue for the year ended 31 December 2009 were USD 59.0 million compared with USD 116.2 million for the year ended 31 December 2008, a decrease of 49.2 %.

Total Operating Expenses

Operating expenses decreased to USD 122.4 million for the year ended 31 December 2009 compared to USD 176.5 million in 2008. The decrease of 30.7 % reflects the cost cutting project taken on by the Group with a reduction to two vessels and reduction of the workforce by more than 75 employees. The reduction in the workforce has been taken in two steps; one first in late 2008 which has given full effect in the operating expenses of 2009, and the second reduction in the second and third quarter in 2009 which effected the last two quarters.

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

Charter costs were reduced to USD 55.2 million for the year ended 31 December 2009 from USD 70.5 million in 2008. The reduction is mainly due to the reduction in the fleet and the reduced activity level. In 2008 the Group capitalised costs related to multi-client projects, giving a deduction of the charter cost of USD 16.9 million for the year. In 2009 there was no such capitalisation of costs, giving a relative larger reduction from 2008 to 2009.

Employee Expenses
Employee expenses in 2009 amounted to USD 30.2 million, a decrease from USD 40.5 million in 2008. In October 2008 the Group reduced the workforce by temporary or permanent layoff of 54 employees. The number of employees at the start of 2009 was 248 and was reduced over the year to 177 as of 31 December 2009.

Depreciation and Amortisation
Depreciation and amortisation rose from USD 22.0 million in 2008 to USD 23.7 million in 2009. The increase in depreciation and amortisation is a direct consequence of the investments in equipment.

Multi-client Amortisation
There was no capitalisation of multi-client costs in 2009 and no amortisation either as the capitalised amount in 2008 was fully written off the same year. The amortisation in 2008 amounted to USD 16.9 million.

Other Operating Expenses
Other Operating Expenses amounted to USD 13.3 million in 2009 compared to USD 26.6 million in 2008. The decrease is mainly due to the successful cost saving program and the decreased activity level.

Financial Income and Expenses
Interest income decreased from USD 1.3 million in 2008 to USD 0.4 million in 2009. Interest expense increased from USD 4.1 million in 2008 to USD 4.5 million in 2009 as the bank drawing facility was refinanced by two convertible loans with fixed amounts. The Group has recorded non-cash income of USD 1.2 million as a consequence of changes in the fair value of the conversion rights on the convertible loans and USD 4.3 million in net foreign currency loss in 2009. In 2008 there were no convertible loans, while the net foreign currency gain amounted to USD 1.6 million. The net financial expense amounted to USD 7.2 million in 2009 compared to USD 1.2 million in 2008.

Share of profit of Joint venture
The share of profit of Joint venture amounted to negative USD 10.7 million in 2009 and negative USD 1.2 million in 2008. The Company has reduced the value of the joint venture in KJT Inc ("KJT") by USD 9.8 million from 2008 to 2009. KJT was owned with 50% each by the Company and RXT ASA, but as a consequence of a private placement to employees, the ownership was reduced in 2009 to 40%. KJT has experienced reduced demand for their services and liquidity problems due to customer's late payments. EMGS has reevaluated the commercial value of the IP portfolio of KJT based on the current market conditions, and this has resulted in an impairment of the value of KJT.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow from Operations, Investing and Financing Activities
Net cash provided by operating activities was negative USD 18.5 million for 2008 compared to negative USD 35.4 million for 2009.

Net cash applied in investing activities for 2009 was USD 7.3 million. The principal components of these expenditures were related to investment in equipment for the purpose-built vessel "Boa Galatea" and the preparation of the mobile equipment set which is modified to be used to perform EM surveys using vessels on short term charters. The cash applied in investing activities in 2008 was USD 23.7 million, where the main effect was the investment in multi-client library of USD 16.9 million.

Net cash provided by financing activities for 2009 totalled USD 44.2 million. The most important componenements are (i) the convertible loans raising USD 27.4 million in Q2 2009 and (ii) the private placement amounting to USD 22.3

million raised in the private placement in December 2009. The corresponding amount for 2008 was USD 29.6 million, with a share issue of USD 42.8 million.

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 Group will meet its liquidity requirements for 2010.

The Company has two convertible loans, totalling USD 30.4 million as of 31 December 2009. In addition, EMGS has financial lease obligations of USD 8.3 million

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, 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 Company'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 as the two convertible loans have fixed interest rates. EMGS's sources of liquidity include cash balances, cash flow from operations, the convertible loans and equity issuances. EMGS primary sources of funds for its short-term liquidity needs will be cash flow from operations while long-term sources of funds will be from cash from operations and other debt or equity financings.

The two convertible loans both have financial covenants. At the end of 2009, the Group was in breach of one financial covenant. The Company has received waivers from the majority holders of the USD 5 million convertible and the only holder of the NOK 150 million convertible.

The Group has no significant concentration of credit risk. The Group'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 2009, EMGS did not experience any significant default in payments from customers.

THE WORKING ENVIRONMENT AND THE EMPLOYEES

As at 31 December 2009, the Group had 177 employees, 23 of which are employed at the Group's regional office in Houston, Texas, USA and 12 of whom are employed at the regional office in Kuala Lumpur, Malaysia. The Board believes that the Group's general working environment is good, and it is a prioritised goal for the Group's management team to maintain this status. The reduced operating activity, financial challenges and the reduction in the workforce in May 2009 have affected the working environment, but there has been a good understanding by most employees for the measures taken. There has been close contact between management and the employee representatives throughout 2009. 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 2009, as well as the reorganisation. Management has reported that the reorganisation has contributed to improve the working environment in the last half year of 2009.

The internal educational and training program "the EMGS Training Center" continues to provide internal and external 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 2009 was 2.0% (1.0% in 2008). Two incidents resulted in restricted work cases and one of those resulted in lost time injury. The latter employee lost one day's work before taking up his normal duties.

EQUAL OPPORTUNITIES AND DISCRIMINATION STATEMENT

EMGS has defined and implemented guidelines to protect against gender discrimination. At the end of 2009, 25.0% of the Group's 177 employees were female (22.8% in 2008). The Group will continue to prioritise the goal of improving the current imbalance by actively following a recruiting strategy to this effect. EMGS recognises that the average compensation for our female employees is lower than for the total work force. This can, however, be explained by high degree of representation of males at the management level and among technical professionals.

The Discrimination Act's objective is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and faith. The Group is working actively, determined and systematically to encourage the act's purpose within our business. Included in the activities are recruiting, salary and working conditions, promotion, development opportunities and protection against harassment. This is an issue of importance for the Group's working environment as the Group has employees from more than 20 nations with a variety of languages, culture, ethnicity, religion and faith. The Groups use English as company language to secure that all employees can take part in the communication.

The Group's aim is to be a workplace with no discrimination due to reduced functional ability and is working actively to design and implement the physical conditions in such a manner that as many as possible can utilise the various functions. For employees or new applicants with reduced functional ability, individual arrangements of workplace and responsibility are made.

EXTERNAL ENVIRONMENT

EMGS's offshore activity may in some instances lead to spills or other unwanted effects on the environment. The potential effect is, however, 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 2009.

ALLOCATION OF NET INCOME

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

Other equity	KNOK	- 472 508
Net Income Allocated	KNOK	- 472 508

The Company does not have distributable equity as of 31 December 2009.

OUTLOOK

EMGS believes that the corporate restructuring and cost reductions implemented in 2009, in addition to the private placement which was conducted at the end of the year, has created a business that is more financially robust, more efficient and more commercially oriented. The company's operating vessel fleet has been reduced, however, its survey capacity is virtually intact thanks to EMGS's two high-capacity, purpose-built 3D EM vessels.

Signs of increased exploration and production spending in 2010, along with positive movements in negotiations with targeted oil companies and the global cooperation agreement with Fugro, suggest that operational profits are within reach for 2010. Customer spending patterns do, however, remain challenging to predict, and the future risks for EMGS will still largely be dictated by the ability to capitalise on encouraging movements in negotiations with targeted customers.

Oslo, 24 March 2010

Bjarte H. Bruheim
Chairman of the Board

Christopher Alan Wright

Berit Svendsen

Jeffrey Alan Harris

Grethe Høiland

Friedrich Roth

Cecilie Arentz

Roar Bekker
CEO

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 21 October 2009. 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 2009 for each section. Any deviations from the Code of Practice are addressed in relation to the relevant section.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

Governance is in focus at all levels of the organisation, and is reflected in EMGS's corporate documents, its articles of association, policies and its business strategy. The Company has established a set of policies, including, but not limited to policies on (i) ethics, (ii) health, safety and environment, (iii) drug and alcohol, (iv) quality, (v) smoking and (vi) environment.

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 associate provide a definition of the scope of activity which ensure the shareholder's control with the business and its risk profile without interfering with the roles of the board and the management. A more detailed description of EMGS's goals and strategies is presented in the annual report.

3. EQUITY AND DIVIDENDS

As of 31 December 2009 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 Stock Exchange.

EMGS's practice is to ask the general assembly to consider mandates for the Board of Directors for specific issues in order to secure information and equal treatment of shareholders.

In the event of any material transaction between the Company and its shareholders, members of the Board of Directors, members of the executive personnel 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 endeavours to organise 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 21 days prior to the date of the general meeting. For the annual general meeting in 2010 it will be proposed to amend the Company's articles of association to reflect the requirement for 21 days notice which has been set out in a new provision of the Norwegian Public Limited Liability Companies Act (currently the articles of association state that two weeks notice is sufficient). 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 evaluated the recommendation 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. At present there are 7 members of the Board of Directors, including 2 employee representatives. At least three board members are independent of major shareholders and the executive personnel. There are four men and three women serving as 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 are encouraged to own shares in the Company.

The majority of the board members are independent of the Company's executive personnel, 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 personnel. The other shareholder elected board members are all independent of the executive personnel and significant business relations. See the annual report for further information about the members of the Board of Directors.

One of the shareholder's 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 personnel, 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 personnel.

The Board of Directors' working methods and interaction are 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. The Board of Directors re-evaluates this on a yearly basis.

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's 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. 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 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.

Bjarte Bruheim	USD 554 000
David Krieger	USD 0
Jeffrey Harris	USD 0
Christopher Wright	USD 40 000
Berit Svendsen	USD 30 000
Grethe Høiland	USD 30 000

Christopher Wright and Berit Svendsen has the right to an additional USD 10 000 each for their contribution in the compensation committee. Christopher Wright received USD 10 000 in 2009, and Berit Svendsen will receive the same amount for her committee work in 2009 in 2010.

Bjarte Bruheim served on the audit committee, but does not receive compensation for this. Jeffrey Harris is appointed as board member by the Warburg Pincus fonds and according to their internal instructions, he does not receive any compensation for his work for the Company.

The employee representatives does not receive any compensation for their services as board members.

See the annual report, in particular note 6 and 14 regarding remuneration and shares owned by board members.

12. REMUNERATION OF THE EXECUTIVE PERSONNEL

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 are 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. Roar Bekker acted as Chief Executive Officer throughout the year, as he was stand in during the sick-leave of Terje Eidesmo before he was formally appointed on 26 May 2009. The remuneration to the Chief Executive Officer is stated in note number 6 in the financial statement of the Company.

The guidelines of the remuneration system for the executive personnel 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 personnel 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's 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 and its 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. The presentations are simultaneously broadcasted over the internet. The Company provides information about its major value drivers and risk factors in the reports.

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.

The Company has a policy stating who is entitled to speak on behalf of the Company on various subjects, in particular who should communicate with the media, investors and investment bankers

14. TAKE-OVERS

Given the present composition of the Company's shareholders according to the register of shareholders, with one shareholder holding more than 50% of the issued share capital of the Company, the Company does not believe it is 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, as well as other circumstances of importance to estimate accounting figures and any disagreement between the auditor and the executive personnel 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 is present.

The Board of Directors has adopted instructions as to the executive personnel'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

CONSOLIDATED INCOME STATEMENT

Amounts in USD 1 000	Note	2009	2008
Operating revenues			
Contract sales	19	**39 593**	82 477
Multi-client sales	12, 19	**19 385**	33 700
Total operating revenues		**58 978**	**116 177**
Operating expenses			
Charter hire, fuel and crew expenses	26	**55 211**	70 518
Employee expenses	20	**30 194**	40 451
Depreciation and ordinary amortisation	10, 11	**23 707**	22 029
Multi-client amortisation	12	**-**	16 889
Other operating expenses	21	**13 308**	26 572
Total operating expenses		**122 420**	**176 459**
Operating profit (loss)		**-63 442**	**-60 282**
Share of profit of joint venture	5	**-10 746**	-1 227
Financial income and expenses			
Interest income	23	**375**	1 314
Interest expenses	23	**-4 517**	-4 056
Change in fair value of conversion rights	14, 23	**1 212**	-
Net foreign currency income/(loss)	23	**-4 286**	1 578
Net financial items		**-7 217**	**-1 164**
Loss before income tax		**-81 404**	**-62 674**
Income tax expenses	24	**-109**	3 096
Loss for the year		**-81 295**	**-65 770**
Basic loss per share (result for the year/shares) in USD	30	**-0.87**	**-0.83**
Diluted loss per share (EPS) in USD	30	**-0.87**	**-0.83**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Loss for the year		**-81 295**	**-65 770**
Exchange differences on translation of foreign operations		**8**	-6
Total comprehensive income/(loss) for the year		**-81 287**	**-65 776**

CONSOLIDATED BALANCE SHEET

Amounts in USD 1 000	Note	2009	2008
ASSETS			
Non-current assets			
Intangible assets	10	**2 862**	3 784
Property, plant and equipment	11	**32 117**	42 665
Assets under construction	8	**10 533**	12 631
Interest in joint venture	5	**3 015**	12 800
Total non-current assets		**48 527**	**71 880**
Current assets			
Spare parts, fuel, anchors and batteries	9	**8 147**	9 539
Trade receivables	7	**9 930**	13 923
Other receivables	8	**6 924**	2 943
Cash and cash equivalents	6	**29 578**	28 112
Total current assets		**54 579**	**54 517**
Total assets		**103 106**	**126 397**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital, share premium and other paid equity	17	**149 739**	244 961
Other reserves		**-218**	-226
Retained earnings		**-124 780**	-162 319
Total equity		**24 741**	**82 416**
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	16	**5 462**	4 392
Borrowings	14	**4 263**	2 780
Total non-current liabilities		**9 725**	7 172
Current liabilities			
Trade payables	34	**14 570**	19 514
Current tax liabilities	25	**2 047**	2 836
Provisions	35	**6 718**	-
Other short term liabilities	13	**10 806**	9 360
Borrowings	14	**34 499**	5 099
Total current liabilities		**68 640**	36 809
Total liabilities		**78 365**	43 981
Total equity and liabilities		**103 106**	126 397

CONSOLIDATED STATEMENT OF CASH FLOW

Amounts in USD 1 000	Note	2009	2008
Net cash flow from operating activities:			
Loss before income tax		**-81 404**	-62 674
Adjustments for:			
Depreciation and ordinary amortisation	10, 11	**23 707**	22 028
Multi-client amortisation	12	**-**	16 889
Profit on sale of fixed asset		**-36**	-84
Share of net loss of joint venture		**2 643**	143
Non-cash portion of pension expenses		**1 070**	1 883
Cost of share-based payments		**1 185**	2 011
Change in trade receivables		**3 993**	18 915
Change in inventories		**1 392**	2 969
Change in trade payables		**-4 944**	-9 029
Change in other working capital		**5 331**	-7 043
Taxes paid		**-1 090**	-4 499
Withholding tax expenses		**410**	-
Change of fair value of conversion rights		**-616**	-
Impairment of investment in joint venture		**8 103**	-
Amortisation of interest		**4 861**	-
Net cash flow from operating activities		**-35 395**	**-18 491**
Investing activities:			
Investment in joint ventures	5	**-**	412
Purchases of property, plant and equipment		**-6 309**	-6 396
Purchases of intangible assets		**-1 138**	-2 037
Proceeds from sales of assets		**119**	1 198
Investment in multi-client library		**-**	-16 889
Cash used in investing activities		**-7 328**	**-23 712**
Financial activities:			
Financial lease payments-principal		**-2 578**	-6 319
Proceeds from convertible bonds		**27 364**	-
Proceeds from issuance of ordinary shares	17	**22 264**	43 954
Payment of interest on bonds		**-1 027**	-
Payment of bank borrowings		**-1 834**	-8 005
Cash provided by financial activities		**44 189**	**29 630**
Net increase in cash		**1 466**	**-12 573**
Cash balance beginning of period		**28 112**	40 685
Cash balance end of period		**29 578**	28 112
Increase in cash		**1 466**	**-12 573**
Interest paid		**- 2 268**	-3 993
Interest received		**375**	1 314

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 2008		**198 996**	**-220**	**-96 694**	**102 082**
Currency translation differences		-	-6	-	**-6**
Loss for the year		-	-	-65 770	**-65 770**
Total comprehensive income		-	-6	-65 770	**-65 776**
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**
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**
Balance at 1 January 2009		**244 961**	**-226**	**-162 319**	**82 416**
Currency translation differences		-	8	-	**8**
Loss for the year		-	-	-81 295	**-81 295**
Total comprehensive income		-	8	-81 295	**-81 287**
Proceeds from shares issued - private placement and options exercised	17	23 492	-	-	**23 492**
Transfer of share premium to retained earnings	17	-118 834	-	118 834	**-**
Equity component of convertible loan	17	163	-	-	**163**
Share-based payment	17	1 185	-	-	**1 185**
Cost of rights issue	17	-1 228	-	-	**-1 228**
Balance at 31 December 2009		**149 739**	**-218**	**-124 780**	**24 741**

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 24 March 2010.

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 not be materially different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

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:

· IFRS 2, "Share-based Payment: Vesting Conditions and Cancellations" effective 1 January 2009.
The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The adoption of this amendment had no impact on the financial position or performance of the Group.

· IFRS 7, "Improving Disclosures About Financial Instruments" effective 1 January 2009.
The adoption of this improvement had no impact on the financial position or performance of the Group.

· IAS 1, "Presentation of Financial Statements" effective 1 January 2009.
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component in equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

· IAS 23, "Borrowing Costs" (Revised) effective 1 January 2009.
The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. The Group does not have any borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, therefore the adoption of the revised standard had no impact on the financial position or performance of the Group.

· IAS 32, "Financial Instruments: Presentation" and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation" effective 1 January 2009.
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

· IFRIC 9 "Amendments to IFRIC 9 - Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" effective 1 January 2009.
This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit and loss. The Group does not have any hybrid financial assets that are reclassified out of the fair value through profit or loss category, therefore the adoption of IFRIC 9 did not have any impact on the financial position or performance of the Group.

· IFRIC 13, "Customer Loyalty Programmes" effective 1 January 2009.
IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. The Group does not have any customer loyalty programmes, therefore the adoption of IFRIC 13 did not have any impact on the financial position or performance of the Group.

· Improvements to IFRSs generally effective 1 January 2009.
The IASB has issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the amendments resulted in changes to accounting policies, but did not have any 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 2010 or later periods but which the Group has not early adopted, as follows:

· IFRS 1, "Revision of IFRS 1" (effective for annual periods beginning on or after 1 January 2010).
· IFRS 3, "Revision of IFRS 3 - Business Combinations" (effective for annual periods beginning on or after 1 July 2009).
· IAS 27, "Amendments to IAS 27- Changes in Ownership Interest, Non-Controlling Interests" (effective for annual periods beginning on or after 1 July 2009).
· IAS 39, "Amendments to IAS 39- Eligible Hedged Items" (effective for annual periods beginning on or after 1 July 2009).

- IFRS 2, "Amendments to IFRS 2- Group Cash-settled Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2010, but is not approved by the EU).
- IAS 32, "Amendment to IAS 32 - Classification of rights issued" (effective for annual periods beginning on or after 1 February 2010).
- IAS 24, "Amendment to IAS 24 - Clarifies and simplifies the definition of a related party" (effective for annual periods beginning on or after 1 January 2011, but not approved by the EU).
- IFRS 9, "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013, but not approved by the EU).
- IFRIC 12, "Service Concession Arrangements" (effective for annual periods beginning on or after 1 April 2009).
- IFRIC 15, "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2010).
- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 17, "Distribution of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 November 2009).
- IFRIC 18, "Transfer of Assets from Customers" (effective for annual periods beginning on or after 1 November 2009).
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010, but is not approved by the EU).
- Annual improvement project 2007/2008, "Amendments to 12 IFRSs" (generally effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, but not approved by the EU).

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

The Group plans to implement the new standards, amendments and interpretations when they are effective and approved by EU.

2.4 Consolidation
The consolidated financial statements incorporate the financial statements of EMGS and entities controlled by EMGS (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 Interest in a joint venture
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 venture using the equity method.

Under the equity method, the interest in a joint venture is 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 a joint venture is 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, including amortisation of excess values and impairment losses. At each reporting date the Group evaluates if there are identified indications that the investment may be impaired. If there are such indications, the recoverable amount of the investment is estimated in order to determine the extent of the impairment loss (if any). 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 in 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.

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 2.10).

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 reflected in the income statement in the year in which the expenditure is incurred.

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

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

(a) Patents
Patents have a finite 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 Group'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.

The Group 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 Group 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 Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

2.10 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). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Non-financial assets other than goodwill previously impaired are reviewed at each reporting date for possible reversal of the previously recorded impairment. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior periods.

2.11 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, available-for-sale assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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's financial assets include cash and short term deposits, trade and other receivables.

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.

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.

2.12 Impairment of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the assets and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default of payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.13 Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The subsequently measurement of the financial liabilities depends on their classification.

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

(a) Loans and borrowings
Loans and 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.

(b) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Derivatives, including separated embedded derivatives are classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities at fair value through profit or loss are carried in the income statement at fair value with changes in fair value recognised under financial items. The conversion option on the convertible bond denominated in Norwegian Kroner is measured at fair value at each reporting date.

2.14 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.

2.15 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.

2.16 Employee benefits

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

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

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

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

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

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

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

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

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

2.17 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 measured at 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 Group 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 Group 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 Group 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.

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

(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 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.

2.19 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).

2.20 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.

2.21 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 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 contract period.

NOTE 3 — FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
The Group's principal financial liabilities comprise trade and other payables, loans and borrowings and derivative financial instruments. 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 hedging transactions in 2009 or 2008.

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

(a) Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risk for the Group: interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as at 31 December 2009 and 2008. The sensitivity analysis have been prepared on the basis that the amount of net debt and the portion of financial instruments in foreign currencies are all constant.

The analyses exclude the impact of movements in market variables on the carrying value of pension, provisions and on the non-financial assets and liabilities of foreign operations.

An assumption of that the sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks is made in the analyses. This is based on the financial assets and financial liabilities held at 31 December 2009 and 2008.

(1) Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's leasing liabilities and cash equivalents. The Group's convertible bonds have fixed interest rates. The impact on the Group's profit before tax and equity from changes in the market interest rate is therefore immaterial.

(2) Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. 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 80% 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 summarises 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). The Group's exposure to foreign currency changes on equity and for all other currencies are not material.

	Increase/ decrease NOK rate	Effects on profit before tax
2009	+20 %	2 040
	-20 %	-3 060
2008	+20 %	851
	-20 %	-1 277

(b) Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and cash and cash equivalents).

(1) Trade receivables
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 2009 sales, these customers were large international oil companies, and considered creditworthy. The requirement for an impairment is analysed at each reporting date on an individual basis for each customer. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

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.

(c) Liquidity risk
The Group's sources of liquidity include cash balances, cash flow from operations, borrowings, 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. 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 2009					
Interest bearing loans and borrowings	-	30 421	-	-	**30 421**
Other liabilities	-	-	-	5 462	**5 462**
Trade and other payables	-	34 141	-	-	**34 141**
Other financial liabilities	-	4 078	4 263	-	**8 341**
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**

(1) Capital management
Capital includes equity attributable to the equity holder of the parent.

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 2009 and 31 December 2008.

The Group monitors its capital structure on the basis of a total equity to total assets ratio. As of 31 December 2009 this ratio was 24% (2008: 66%). 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. As of 31 December 2009 the equity ratio was below 50% as a result of the economic challenges in 2009. To improve the ratio, the Company has increased its equity through a private placement. A subsequent offering of 4 000 000 shares after the private placement was completed in January 2010. It is not anticipated that the total equity to total assets ratio will be above 50% in 2010.

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 2009 is 5 462 (2008: 4 392). 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 acquired 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 Group 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 Group has a maximum lifetime of 3 years on multi-client project. The minimum amortisation policy is described in Note 2.8 (d).

Impairment of non-financial assets
An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash-flow model. The cash flows are derived from the budget for the next years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Provision for onerous contracts
The Group recognises a provision for onerous contracts based on the vessel lease contracts on the vessels that are not used in production of the Group's services. The Group has calculated a best estimate of the net present value of future rental obligation based on the net charge of unavoidable lease payments on the non-operating vessels.

4.2 Critical accounting judgment

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 2009 are 60 183 (2008: 37 047).

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 2009, the carrying amount of capitalised development costs is 2 033 (2008: 1 994).

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the income statement cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to this model are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

NOTE 5 — INTEREST IN A JOINT VENTURE

The Group has a 40% interest and owns 50% of the voting shares in KJT Inc, a jointly controlled entity. KJT is an unlisted company based in the USA which offers an alternative to the Group's proprietary methodologies in shallow water applications. The allocation of the purchase price was completed in March 2008.

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	2009	2008
Current assets	**607**	1 477
Non-current assets	**63**	33
Current liabilities	**1 136**	860
Non-current liabilities	**-**	-
Net assets	**(465)**	**649**
Value of technology	**3 480**	4 698
Value of goodwill	**-**	7 453
Carrying amount of investment	**3 015**	**12 800**

Amounts in USD 1 000	2009	2008
Share of the joint venture's revenue and profit:		
Revenue	**2 110**	3 884
Results	**(1 160)**	379
Amortisation of technology (10 years)	**522**	522
Impairment	**8 149**	-
Bonus accrual	**915**	1 084
Recognised in the Consolidated Income Statement	**(10 746)**	**(1 227)**

The goodwill and some of the value of technology acquired in the purchase of KJT Inc has been impaired during 2009. KJT Inc was defined as one cash-generating unit in the impairment testing.

The Group performed its annual impairment test as at 30 June 2009. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment.

The recoverable amount of the KJT investment is determined based on a value in use calculation which uses pre-tax cash flow projections based upon financial budget. The pre-tax discount rate applied to the cash flow projections is 13.7% (2008: 16.2%) and cash flows beyond the one year of budgeted numbers are extrapolated using a 12% growth rate in revenues for 2010-2012, 7% growth rate for 2013-2014 and 5% growth rate after that. This growth rate exceeds the average growth rate for peer group consisting of mostly seismic companies. The growth rate is justified based on that KJT is a newer company that is in a different stage of development than most of the companies in the peer group. In addition, KJT is not as capital intensive as the seismic companies. As a result of this analysis, management has recognised an impairment charge of 7 453 against goodwill and 696 against technology, this is recorded as Share of profit of joint venture in the income statement.

The calculation of value in use for KJT Inc is most sensitive to the following assumptions:

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) margin
Discount rate
Growth rate used to extrapolate cash flows beyond the budget period

EBITDA margin - EBITDA margin is based on average values in the two years preceding the start of the budget period. The EBITDA margin is kept constant at 35% per annum over the period.

Discount rate - The discount rate reflects the current market assessment of the risks specific to KJT Inc. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to KJT Inc for which future estimates of cash-flows have not been adjusted.

Growth rate estimates - Rates are based on published industry research . For the reasons explained above, the growth rates used to extrapolate the budget have been adjusted by an additional element.

NOTE 6 — CASH AND CASH EQUIVALENTS

Amounts in USD 1 000	2009	2008
Cash	**28 792**	27 218
Restricted cash	**786**	894
Total cash and cash equivalents	**29 578**	**28 112**

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	2009	2008
Accounts receivable	**6 674**	10 805
Accrued revenues	**3 355**	4 504
Provision for doubtful receivables	**-99**	-1 387
Total trade receivables	**9 930**	**13 923**

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 2009 trade receivables of 99 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	2009	2008
At 1 January	**-1 387**	**-4 665**
Charge for the year	**-99**	-1 387
Amounts written off	**1 387**	4 665
At 31 December	**-99**	**-1 387**

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
2009	**6 674**	**380**	**2 993**	**752**	**-**	**1 494**	**1 056**
2008	10 805	4 106	3 101	1 189	16	-	2 393

NOTE 8 — OTHER RECEIVABLES AND ASSETS UNDER CONSTRUCTION

Amounts in USD 1 000	2009	2008
Prepayments	**4 083**	2 792
Receivables VAT	**305**	-
Other receivables	**2 536**	151
Total other receivables	**6 924**	**2 943**
Prepaid assets	**-**	3 639
R&D projects under development	**10 533**	8 991
Total assets under construction	**10 533**	**12 631**

Fair value of the receivables approximates the nominal values.

NOTE 9 — SPARE PARTS, FUEL, ANCHORS AND BATTERIES

Amounts in USD 1 000	2009	2008
Equipment components and parts, at cost	**6 706**	7 247
Anchors and batteries, at cost	**827**	1 072
Fuel, at cost	**614**	1 221
Total spare parts, fuel, anchors and batteries	**8 147**	**9 539**

Inventory items expensed during 2009 amounted to 4 916 (2008: 17 203) 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 2008			
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**
Amortisation charge	-1 427	-168	**-1 595**
Closing carrying value	**3 227**	**557**	**3 784**
At 31 December 2008			
Accumulated cost	5 912	1 673	**7 585**
Accumulated amortisation	-2 685	-1 116	**-3 801**
Net carrying value	**3 227**	**557**	**3 784**
Year ended 31 December 2009			
Opening carrying value	3 227	557	**3 784**
Additions	331	-	**331**
Capitalised internally developed software	807	-	**807**
Amortisation charge	-1 883	-174	**-2 060**
Closing carrying value	**2 479**	**383**	**2 862**
At 31 December 2009			
Accumulated cost	7 050	1 673	**8 723**
Accumulated amortisation	-4 571	-1 290	**-5 861**
Net carrying value	**2 479**	**383**	**2 862**

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 2 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 2008				
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**
Accumulated costs on disposals	-1 607	-	-	**-1 607**
Depreciation charge	-15 577	-3 225	-1 632	**-20 434**
Accumulated 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**
Year ended 31 December 2009				
Opening carrying value	29 501	7 313	5 851	**42 665**
Additions	11 157	250	-	**11 407**
Accumulated costs on disposals	-11 097	-71	-119	**-11 287**
Depreciation charge	-16 526	-3 374	-1 747	**-21 647**
Accumulated depreciation on disposals	10 945	34	-	**10 979**
Closing carrying value	**23 980**	**4 152**	**3 985**	**32 117**
At 31 December 2009				
Accumulated cost	69 326	13 437	8 502	**91 265**
Accumulated amortisation	-45 346	-9 285	-4 517	**-59 148**
Net carrying value	**23 980**	**4 152**	**3 985**	**32 117**

Finance leasing included in property, plant and equipment:

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**
2009				
Cost of capitalised finance leases	4 846	7 272	8 502	**20 620**
Accumulated depreciation	-969	-5 276	-4 517	**-10 762**
Net carrying value	**3 877**	**1 996**	**3 985**	**9 858**

The amount of property, plant & equipment pledged as security for liabilities has a net carrying value of 32 117 as of 31 December 2009 (2008: 25 004).

	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	-
Year ended 31 December 2009	
Opening carrying value	-
Cash investments	-
Amortisation expenses	-
Closing carrying value	-
At 31 December 2009	
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 2009 or 2008.

Multi-client revenues recognised in 2009 amounted to 19 385 (2008: 33 700).

NOTE 13 — OTHER SHORT TERM LIABILITIES

Amounts in USD 1 000	2009	2008
Accrued expenses	**4 141**	3 239
Holiday pay	**1 710**	1 487
Social security taxes and other public duties	**1 869**	1 551
Other short term liabilities	**3 086**	3 083
Total other short term liabilities	**10 806**	**9 360**

Accrued expenses are generally on 30 days payment terms.

NOTE 14 — BORROWINGS

Amounts in USD 1 000	Interest rate	Maturity	2009	2008
Non-current				
Finance lease liabilities	3 month NIBOR + 1.95%	2-3 years	**4 263**	2 780
Total			**4 263**	2 780
Current				
NOK 150 000 000 convertible bond	7.0%	2 January 2012	**25 661**	-
USD 5 000 000 convertible bond	9.0%	18 May 2011	**4 760**	-
Bank borrowings	LIBOR + 2.30	1 May 2009	**-**	1 819
Finance lease liabilities	3 month NIBOR + 1.95%	Up to 1 year	**4 077**	3 280
Total			**34 499**	5 099
Total borrowings			**38 762**	**7 879**

Bank borrowings
Bank borrowings are secured by the accounts receivable, bank accounts and rights, licences, patents and similar rights of the Group.

Finance lease liabilities
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.

NOK 150 000 000 convertible bond
Fugro N.V has provided EMGS a NOK 150 000 000 secured convertible loan bearing an interest at 7.00% p.a in April 2009. 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 2 January 2012.

As a result of a breach of one of the covenants (equity ratio of more than 25%), the long term convertible loan is classified as a current liability.

As the functional currency in EMGS is USD and the conversion price for the Fugro convertible loan is in NOK, the loan cannot be seen as a contract settled by an entity by delivering a fixed number of its own equity instruments in exchange for a fixed amount of foreign currency, but for a variable number of its own equity instrument based on the NOK/USD exchange rate fluctuation. The loan contains an embedded derivative and the Group therefore has to designate the embedded derivative as a financial liability at fair value through profit or loss.

The economic components of the NOK 150 000 000 convertible bond are:

(a) A liability component, the holder's put option (right to convert at any time). This option has to be calculated at fair value through profit or loss. The fair value calculation is based on the Black Scholes option pricing model and,

(b) An additional liability component, the residual is measured at amortised cost using the effective interest rate method.

The Group has therefore calculated the fair value of the put option. The fair value of the derivative at the disbursement date was 7 563 and subsequent changes in fair value are charged to the income statement. At 31 December 2009 the fair value was estimated to 7 037 resulting in a financial gain in the income statement in 2009. The residual, an additional liability component, is measured at amortised cost using the effective interest rate method. As of end December 2009, the value of this component amounted to 18 624.

The NOK 150 000 000 convertible bond is secured by first priority pledge of machinery, equipment and inventory.

USD 5 000 000 convertible bond
On 30 April 2009, EMGS secured a USD 5 million senior unsecured convertible bond bearing an interest at 9.00% p.a. The loan can at any time be converted into common shares in EMGS at the conversion price of USD 0.88 until the maturity date on 18 May 2011.

As a result of a breach of one of the covenants (equity ratio of more than 25%) the long term convertible loan is classified as a current liability.

The USD 5 000 000 convertible bond has a fixed exchange rate for the conversion right, hence it is denominated in USD. The loan can be seen as a contract settled by an entity by delivering a fixed amount of its own equity instruments in exchange for a fixed amount of foreign currency.

The economic components of this convertible bond are:

(a) A liability. On issuance of the convertible bond, the fair value of the liability component was determined using a market rate for an equivalent non-convertible bond; and classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

(b) An equity component. The residual of the proceeds was allocated to the conversion option that was recognised in shareholders' equity.

At inception the value of the liability component was estimated to 4 592, and amortised cost at 31 December 2009 was 4 760. The equity component, the carrying amount of the conversion option, was estimated to 163 at inception and is not remeasured in subsequent periods.

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

Amounts in USD 1 000	2009	2008
6 months or less	**8 340**	7 879
6-12 months	**-**	-
1-5 years	**-**	-
Over 5 years	**-**	-
Total	**8 340**	7 879

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	2009	2008
Between 1 and 5 years	**4 263**	2 780
Over 5 years	**-**	-
Total	**4 263**	2 780

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

Amounts in USD 1 000	Carrying amounts		Fair values	
	2009	2008	**2009**	2008
Leasing liabilities	**4 263**	2 780	**4 263**	2 780

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	2009	2008
USD denominated	**4 760**	1 819
NOK denominated	**34 001**	6 060
Total	**38 762**	7 879

The Group has 0 (2008: 22 165) undrawn borrowing facilities expiring within one year. The borrowing facility had a floating rate.

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

	2009		2008	
	NOK	USD	NOK	USD
Bank borrowings	**-**	**-**	-	20.86%
Leasing liabilities	**7.35%**	**-**	6.46 %	-
NOK 150 000 000 convertible bond	**6.42%**	**-**	-	-
USD 5 000 000 convertible bond	**-**	**3.42%**	-	-

NOTE 15 — FINANCE LEASE OBLIGATIONS

The Company has finance lease agreements for winch & handling systems, hardware, furniture and cluster.

Amounts in USD 1 000	2009	2008
Finance lease liabilities – minimum lease payments:		
No later than 1 year	**4 459**	3 633
After 1 year and no more than 5 years	**4 894**	2 940
After more than 5 years	**-**	-
Total minimum lease payments	**9 353**	**6 573**
Future finance charges on finance leases	**-1 013**	-513
Present value of finance lease liabilities	**8 340**	6 060
The present value of finance lease liabilities is as follows:		
No later than 1 year	**4 077**	3 280
After 1 year and no more than 5 years	**4 263**	2 780
After more than 5 years	**-**	-
Total present value of finance lease liabilities	**8 340**	**6 060**
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 is 138 in 2009 and 199 in 2008. The plan only includes employees employed in Norway.

The Management decided to implement changes in the defined benefit plan with effect from 1 September 2009. After 1 September 2009 the pension payment to retired employees is regulated according to the Norwegian Pension Law's minimum requirement each year, instead of regulation in accordance with Norwegian National Insurance's base amount as of May each year. In addition, the funded part in disability-, spouse- and child-pension was closed as of 1 September 2009. Hence, the Company do no longer pay a premium up-front for the future risk for the employees' potentially permanent occupational disability or death. The annual premium will cover the actual risk. The effects on the pension liability and the expense are shown as Curtailment below.

Employees that leave the Company before the age of retirement receive a paid-up policy. At the time of issuance of paid-up policies, the Company is relieved of any further obligations towards these people. The obligations are valued at the time of issuance of paid-up policies, and are derecognised from pension obligations and plan assets.

The effects on pension liability and pension expense from the reduction in number of employees are shown as Plan amendments below.

Amounts in USD 1 000	2009	2008
Balance sheet obligations for:		
Pension obligations	**5 462**	4 392
Income statement charge for:		
Pension obligations	**829**	4 544

Pension benefit obligation:

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

Amounts in USD 1 000	2009	2008
Defined benefit obligation	**5 352**	9 677
Fair value of plan assets	**-2 637**	-2 605
	2 714	**7 072**
Unrecognised actuarial gain (loss)	**2 748**	-2 680
Liability in the balance sheet	5 462	**4 392**

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

Amounts in USD 1 000	2009	2008
Beginning of the year	**9 677**	7 821
Exchange differences	**854**	-2 241
Current service cost	**3 201**	3 817
Interest cost	**305**	339
Plan amendments	**- 2 894**	-
Actuarial losses/(gains)	**-3 374**	-434
Curtailment	**-2 434**	-
Social security tax	**16**	375
End of the year	5 352	**9 677**

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

Amounts in USD 1 000	2009	2008
Beginning of the year	**2 605**	3 681
Expected return on plan assets	**161**	240
Actuarial (losses)/gains	**20**	-1 469
Plan amendments	**-469**	-
Exchange differences	**473**	-1 161
Employer contributions	**614**	1 313
Curtailment	**-768**	-
End of the year	**2 637**	**2 605**

The amounts recognised in the income statement are as follows:

Amounts in USD 1 000	2009	2008
Current service cost	**3 201**	3 817
Interest cost	**305**	339
Expected return on plan assets	**-161**	-240
Amortisation of actuarial (gain)/loss	**18**	45
Impact of plan amendments	**-2 768**	-
Social security tax	**477**	556
Administration fee	**37**	26
Impact of curtailment funded status	**-1 901**	-
Impact of curtailment net actuarial losses (gains)	**1 622**	-
Net benefit expense	**829**	**4 544**

The principal actuarial assumptions used are as follows:

	2009	2008
Discount rate	**4.40 %**	3.80 %
Expected rate of return on plan assets*	**5.60 %**	5.80 %
Expected future salary increases	**4.25 %**	4.00 %
Expected rate of pension increases	**4.00 %**	3.75 %
Expected rate of regulation of pensions under payment	**1.30 %**	3.75 %
Social security tax - rate	**14.10 %**	14.10 %

*The expected rate of return on plan assets is determined based on market prices prevailing on that date, applicable to the period over which the obligation is to be settled. The actual return on plan assets in 2008 was 134.

The change in actuarial assumptions in 2009 is in accordance with guidance published by the Norwegian Accounting Standards Board in August 2009.

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:

	2009	2008
Shares	**3.80 %**	12.50 %
Bonds and money market	**43.90 %**	38.90 %
Hold to maturity bonds	**28.80 %**	27.90 %
Real estate	**16.80 %**	16.80 %
Other	**6.70 %**	3.90 %
Total	**100 %**	**100 %**

Expected contributions to the defined benefit plan for the year ending 31 December 2010 are 1 091.

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

Amounts in USD 1 000	2009	2008	2007	2006	2005
As at 31 December					
Defined benefit obligation	**5 352**	9 677	7 821	3 683	1 359
Plan assets	**2 637**	2 605	3 681	1 648	657
Deficit/(surplus)	**2 714**	**7 072**	**4 140**	**2 035**	**702**
Actuarial gains on plan liabilities	**-3 374**	-434	978	326	-232
Actuarial gains on plan assets	**-20**	1 469	45	32	96

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

Amounts in USD 1 000	Number of shares	Ordinary share capital	Share premium	Other paid-in capital	Total
At 1 January 2008	**74 186 773**	**2 821**	**193 256**	**2 919**	**198 996**
Proceeds from rights issue	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**

Amounts in USD 1 000	Number of shares	Ordinary share capital	Share premium	Other paid-in capital	Total
At 1 January 2009	**91 569 261**	**3 574**	**236 457**	**4 930**	**244 961**
Proceeds from private placement	30 000 000	1 305	20 955	-	**22 260**
Proceeds from options exercised	5 000	-	4	-	**4**
Share-based payment	-	-	-	1 185	**1 185**
Transfer of share premium to retained earnings	-	-	-118 834	-	**-118 834**
Equity component of convertible loan	-	-	-	163	**163**
At 31 December 2009	**121 574 261**	**4 879**	**138 582**	**6 278**	**149 739**

At the private placement issue EMGS issued 30 000 000 shares at the price of USD 0.78 (NOK 4.50) per share. Costs related to this capital increase of 1 192 were recorded as a reduction of the share premium.

The total authorised number of ordinary shares is 137 353 889 (2008: 91 569 261) 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 ordinary shares	Percentage
Shareholders		
Warburg Pincus	61 873 434	50.89 %
DNB NOR SMB, VPF	4 200 000	3.45 %
Bruheim, Bjarte Henry	3 000 088	2.47 %
Odin Offshore	3 000 000	2.47 %
Odin Norge	2 889 600	2.38 %
Sissener Sirius ASA	2 400 000	1.97 %
JP Morgan Chase Bank	2 130 000	1.75 %
Sundt AS	2 105 000	1.73 %
Skandinaviska Enskilda Banken	1 804 700	1.48 %
Morgan Stanley & Co International PLC	1 706 500	1.40 %
UBS A G, London Branch	1 414 900	1.16 %
Verdipapirfondet Handelsbanken	1 400 000	1.15 %
KLP LK Aksjer	1 320 000	1.09 %
DNB NOR Navigator, VPF	1 303 138	1.07 %
Alden AS	1 000 000	0.82 %
EM - SBL Holding AS	1 000 000	0.82 %
Landkreditt Norge	800 000	0.66 %
KLP AksjeNorge	796 000	0.65 %
NHO - P665AK	625 000	0.51 %
Strack, Kurt Martin	563 011	0.46 %
Others	26 242 890	21.59 %
Total	**121 574 261**	**100.00 %**

NOTE 18 — SHARE OPTIONS

Share options are granted to employees and Board of Directors.
The expense recognised for employee services during the year is:

Amounts in USD 1 000	2009	2008
Expense arising from share based options	**1 185**	2 011

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 2009 and 2008:

	2009	2008
Expected volatility (%)	**60 %**	48 %
Risk free interest rate (%)	**2.83 %**	4.18 %
Expected life of options (years)	**4**	5
Weighted average share price (USD)	**0.74**	2.77

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:

	2009		2008	
	Average exercise price in USD per share	Options	Average exercise price in USD per share	Options
At 1 January	**3.86**	**4 999 800**	**3.28**	**2 210 300**
Granted	**0.74**	**2 460 000**	5.39	3 490 000
Forfeited	**-**	**-**	-	-
Exercised	**0.74**	**-5 000**	2.66	-368 500
Terminated	**4.23**	**-705 000**	3.62	-332 000
Lapsed	**6.07**	**-71 600**	-	-
At 31 December	**3.26**	**6 678 200**	**3.86**	**4 999 800**
Exercisable at 31 December	**3.63**	**2 845 200**	**3.21**	**1 699 800**

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

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, 5.72 and 7.07	3 434 000
		4 999 800

2009

	In USD per share	Options
2010	4.50, 1.90, 5.19, 3.46, 6.92 and 0.74	**96 500**
2011	1.90	**445 000**
2012	1.90	**120 000**
2013	4.50 and 2.34	**765 700**
2014	15.58	**10 000**
2015	3.46, 5.19, 5.83, 6.92 and 8.59	**2 866 000**
2016	0.74	**2 375 000**
		6 678 200

The weighted average remaining contractual life for the share options outstanding as at 31 December 2009 is 5.42 years (2008: 5.92 years).

The weighted average fair value of options granted during the year was NOK 2.07 (2008: 5.54).

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	2009	2008
Norway	**25 188**	44 192
Australia	**18**	158
India	**10**	8 205
Brazil	**63**	2 625
Canada	**12 099**	36
Congo	**-**	99
Malaysia	**5 082**	15 338
USA	**8 950**	4 684
Mexico	**-**	12 257
Libya	**-**	13 127
Ghana	**93**	11 069
Senegal	**3 155**	-
Greenland	**4 276**	-
Others	**44**	4 386
Total	**58 978**	**116 177**

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

Three single external customers amounted to 10% or more of the Group's total revenues both in 2009 and 2008. Total revenues from each of these customers were in 2009 12 099, 6 331 and 5 720 (for 2008: 13 305, 13 128 and 12 257).

NOTE 20 — EMPLOYEE EXPENSE

Amounts in USD 1 000	2009	2008
Employee expense		
Salaries	**22 473**	29 183
Social security tax	**3 248**	2 959
Pension costs (Note 16)	**829**	4 544
Other payments	**2 459**	1 754
Cost of share based payment (Note 18)	**1 185**	2 011
Total employee expense	**30 194**	**40 451**
Compensation of key management personnel of the Group		
Salary	**1 338**	1 450
Bonus paid in the year	**517**	-
Share options	**276**	1 905
Pension benefits	**54**	102
Other benefits	**74**	73
Total management remuneration	**2 259**	**3 530**

NOTE 21 — OTHER OPERATING EXPENSES

Amounts in USD 1 000	2009	2008
Rental and housing expenses	**2 827**	3 406
Consumables and maintenance	**875**	1 052
Consultancy fees *	**2 993**	5 641
Travel expenses	**1 948**	4 771
Insurance	**676**	970
Loss on trade receivable	**99**	1 412
Marketing	**672**	3 798
Other operating expenses	**3 219**	5 521
Total other operating expenses	**13 308**	**26 572**
*** Fees to auditor included in consultancy fees:**		
Statutory audit services	**180**	213
Further assurance services	**38**	39
Tax advisory services	**226**	121
Other non-audit services	**11**	110
Total fees to auditor	**456**	**483**

NOTE 22 — RESEARCH AND DEVELOPMENT COSTS

Research and development costs consist of 2 647 (2008: 5 561) charged to the income statement as part of operating expenses and 1 093 (2008: 614) of amortisation of previously capitalised development costs.

NOTE 23 — FINANCIAL ITEMS

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

Amounts in USD 1 000	2009	2008
Financial income:		
Interest income on short term bank deposits	**375**	1 314
Change in fair value of conversion rights	**1 212**	-
Foreign exchange rate gains	**7 187**	10 525
Total financial income	**8 774**	**11 839**
Financial costs:		
Interest expense on financial leases and bank borrowings	**1 096**	3 394
Interest expense on convertible bonds	**3 257**	-
Foreign exchange rate losses	**11 473**	8 944
Other financial expenses	**164**	664
Total financial costs	**15 991**	**13 003**
Net financial income	**-7 217**	**-1 164**

NOTE 24 — INCOME TAX EXPENSE

Amounts in USD 1 000	2009	2008
Current tax	**-109**	3 096
Total income tax expense	**-109**	**3 096**

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	2009	2008
Loss before tax	**-81 404**	-62 674
Tax at the domestic rate of 28%	**-22 793**	-17 549
Non-deductible expenses and other	**-343**	-913
Change in deferred tax asset, not recognised	**23 136**	18 461
Foreign income taxes	**-109**	3 096
Tax charge	**-109**	**3 096**

NOTE 25 — DEFERRED TAX

Amounts in USD 1 000	2009	2008
Deferred taxes detailed		
Property, plant and equipment	**- 6 062**	-654
Trade receivables	**-28**	-388
Pension obligations	**-1 529**	-1 230
Accrued foreign income taxes and other accruals	**-2 632**	-1 368
Loss carried forward	**-49 932**	-33 407
Total deferred tax (asset)/liability	**-60 183**	**-37 047**
Non-recognised deferred tax assets	**60 183**	**37 047**
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 2009 and 2008. 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 2009 and 2008.

The current tax liabilities of 2 047 mainly consist of an accrual of withholding taxes in the USA from 2007.

NOTE 26 — CHARTER HIRE, FUEL AND CREW EXPENSES

Amounts in USD 1 000	2009	2008
Charter hire and crew expenses	**42 379**	47 739
Fuel	**4 192**	13 062
Other external services	**8 640**	9 717
Total charter hire, fuel and crew expenses	**55 211**	**70 518**

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	2009	2008
Office premises rental guarantees	**903**	223
Guarantees on client contracts	**657**	1 793
Total guarantees	**1 560**	**2 016**

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	2009	2008
No later than 1 year	**34 339**	41 805
After 1 year and no more than 5 years	**66 970**	62 698
After more than 5 years	**-**	54 275
Total operating lease commitments	**101 309**	**158 778**

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	2009	2008
Charter hire	**34 560**	43 211
Office premises	**2 040**	2 375
IT infrastructure	**-**	-
Total	**36 600**	**45 586**

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 legal 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 proceedings until the European Patent Office (EPO) 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. A final decision from the EPO is expected within a couple of years.

- The High Court of London published the decision to revoke the three challenged patents in the United Kingdom in 2009. EMGS has appealed the decision on 2 of the patents and the appeal hearing (final instance) is scheduled for April 2010.

No accruals are made for the legal proceedings as of 31 December 2009.

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	2009	2008
Loss attributable to equity holders of the Company	**-81 295**	-65 770
Weighted average number of ordinary shares outstanding (thousands)	**93 460**	78 776
Loss per share (USD per share)	**-0.87**	**-0.83**

The Company had one category of dilutive potential ordinary shares; share options in 2008. Share options would decrease the loss per share and accordingly these effects have not been taken into account when calculating diluted loss per share.

In 2009, the Company also had two convertible bonds. These would also decrease the loss per share and were not taken into account when calculating diluted loss per share.

NOTE 31 — DIVIDENDS

Amounts in USD 1 000	2009	2008
Equity dividends on ordinary shares:		
Final dividends for last year	-	-
Proposed for approval at AGM (not recognised as a liability as at 31 December):		
Equity dividends on ordinary shares	-	-

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	2009	2008
Purchases of goods and services		
BKCCA	-	393

Year end balances arising from purchases of goods:

Amounts in USD 1 000	2009	2008
Payables to related parties:		
BKCCA	-	-

NOTE 33 — INVESTMENT IN SUBSIDIARIES

Company	Share ownership/ voting rights 2009	Share ownership/ voting rights 2008	Equity 31 Dec 2009	Equity 31 Dec 2008	Location
EMGS Americas 1 AS	100 %	100 %	15	14	Trondheim, Norway
EMGS Americas 2 AS	100 %	100 %	15	14	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	100 %	10	50	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	100 %	100 %	2 020	2 102	Rio de Janeiro, Brasil
EMGS Americas Inc	100 %	100 %	(1 607)	(1 382)	Delaware, USA
EMGS International B.V.	100 %	100 %	(37)	(20)	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	1 %	49 %	272	24	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100 %	100 %	31	187	Kuala Lumpur, Malaysia
Global EMGS Nigeria Ltd	35 %	35 %	(191)	(19)	Lagos, Nigeria
EMGS Australia Pty Ltd	100 %	100 %	21	(11)	Perth, Australia
EMGS AS	100 %	100 %	18	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 14 570 (2008: 19 514).

NOTE 35 — PROVISIONS

Provisions for onerous contracts

The Group recognises a provision for onerous contracts based on the vessel lease contracts on the vessels that are not used in production of the Group's services. The Group has calculated a best estimate of the net present value of future rental obligation based on the net charge of unavoidable lease payments on the non-operating vessels. For vessels that are sub-leased, the net amount of lease payments to the vessel owners and revenues from the sub-lease is recorded as a provision. As of 31 December 2009, total amount accrued was 6 718 (2008:0).

THIS SECTION

INCOME STATEMENT

Amounts in NOK 1 000	Note	2009	2008
Operating revenues			
Contract sales	1, 11	**366 700**	636 931
Total operating revenues		**366 700**	**636 931**
Operating expenses			
Charter hire, fuel and crew expenses	2, 3, 4	**347 508**	397 949
Employee expenses	5, 6	**182 282**	222 365
Depreciation and ordinary amortisation	7	**138 093**	130 491
Multi-client amortisation	7	**-**	89 030
Other operating expenses	6	**84 310**	166 180
Total operating expenses		**752 193**	**1 006 015**
Operating income		**-385 493**	**- 369 084**
Financial income and expenses			
Financial income	16	**50 213**	115 747
Financial expenses	16	**79 734**	111 964
Net financial items		**-29 521**	**3 783**
Joint venture		**-58 411**	-
Income (loss) before tax		**-473 425**	**- 365 301**
Income tax expenses	8	**-917**	11 457
Net income (loss) for the year		**-472 508**	**-376 758**
For information:			
Dividend		**-**	-

ASSETS

Amounts in NOK 1 000	Note	2009	2008
Non-current assets			
Intangible assets			
Patents	7, 9	**3 500**	5 000
Software, licenses etc.	7, 9	**13 481**	16 928
Total intangible assets		**16 981**	**21 928**
Property, plant and equipment	7, 9	**188 985**	**245 895**
Financial assets			
Investment in subsidiaries	10	**5 334**	5 334
Interest in joint ventures	17	**19 257**	70 961
Total financial assets		**24 591**	**76 295**
Total non-current assets		**230 557**	**344 118**
Current assets			
Inventories	3	**46 755**	58 668
Total inventories		**46 755**	**58 668**
Receivables			
Trade receivables	9, 11 ,12	**57 361**	61 300
Receivables group companies	12	**15 000**	62 362
Other receivables		**98 204**	91 498
Total receivables		**170 565**	**215 160**
Cash and cash equivalents	13	**163 253**	**168 510**
Total current assets		**380 573**	**442 338**
Total assets		**611 130**	**786 456**

EQUITY AND LIABILITIES

Amounts in NOK 1 000	Note	2009	2008
Equity			
Paid-in capital			
Share capital	14, 15	**30 393**	22 892
Share premium	14, 15	**419 941**	1 065 748
Other paid-in capital	14, 15	**36 721**	29 500
Total paid-in capital		**487 055**	**1 118 140**
Retained earnings			
Other equity (uncovered loss)	15	**-294 129**	-637 714
Total retained earnings		**-294 129**	**-637 714**
Total equity		**192 926**	**480 426**
Liabilities			
Provisions			
Pension liabilities	5	**31 552**	30 742
Total provisions		**31 552**	**30 742**
Other long-term liabilities			
Borrowings	7, 9	**24 627**	19 454
Total other long-time liabilities		**24 627**	**19 454**
Current liabilities			
Borrowings	9, 18	**158 643**	35 686
Trade payables		**83 772**	135 723
Current tax liability	8	**15 655**	22 884
Public taxes and duties payable		**18 095**	12 776
Provisions	19	**38 809**	-
Other current liabilities		**47 051**	48 765
Total current liabilities		**362 025**	**255 834**
Total liabilities		**418 204**	**306 030**
Total equity and liabilities		**611 130**	**786 456**

CASH FLOW STATEMENT

Amounts in NOK 1 000	2009	2008
A) Cash flow from operating activities		
Funds sourced from operations *)	**-259 718**	-146 213
Changes in inventories, accounts receivable and accounts payable	**11 262**	78 076
Changes in other accrual items	**29 292**	-12 887
Net cash flow from operating activities	**-219 164**	**-81 024**
B) Cash flow from investing activities		
Purchase of property, plant and equipment	**-77 855**	-189 053
Disposal property, plant and equipment	**574**	625
Net purchase and proceeds from other investments	**-**	9 830
Interest in joint ventures	**-**	1 364
Net cash flow from investing activities	**-77 281**	**-177 234**
C) Cash flow from financial activities		
Proceeds from debt raised (long- and short term)	**209 486**	53 356
Reduction of long term debt	**-27 402**	-26 448
Net change in bank overdraft	**-12 730**	-40 427
Proceeds from equity paid-in	**127 919**	253 999
Payment of interest on convertible bonds	**-6 085**	-
Group contribution	**-**	227
Net cash flow from financial activities	**291 188**	**240 707**
A+B+C) Net change in cash and cash equivalents	**- 5 257**	-17 551
Cash and cash equivalents at 01.01	**168 510**	186 061
Cash and cash equivalents at 31.12	**163 253**	**168 510**
Calculation of cash and cash equivalents		
Cash and cash equivalents	**158 715**	162 251
Employee withholding taxes	**4 538**	6 259
Cash and cash equivalents at 31.12	**163 253**	**168 510**
***) Calculation of funds sourced from operations**		
Net profit (loss) before income taxes	**-473 425**	-365 301
Depreciation and amortisation	**138 093**	219 521
Income tax expense	**917**	-11 457
Option cost	**7 221**	11 549
Net loss & impairment of joint venture	**51 704**	-
Amortisation of interest	**14 727**	-
Profit (loss) disposal property, plant and equipment	**1 045**	-525
Funds sourced from operations	**- 259 718**	**-146 213**

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.

Sale revenue

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

Current assets and current liabilities

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

Non-current assets and long-term liabilities

Non-current assets are comprised of assets held for permanent possession and use. The assets are valued at the cost of acquisition. Non-current assets are capitalised and depreciated over it's estimated useful economic life. Costs 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 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 other 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.

Provisions

Provisions are recognised when the Company 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 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 contract period.

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	2009	2008
Geographical distribution		
Norway	**161 489**	215 194
Other countries	**205 211**	421 738
Total	**366 700**	**636 931**

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

NOTE 2 — GOVERNMENT GRANTS

In 2009 the Company received grants of 327 from the Norwegian Research Council. The grant is offset against the relevant expenses.

NOTE 3 — INVENTORIES

Amounts in NOK 1 000	2009	2008
Inventory type		
Equipment, components and parts	**38 670**	42 623
Anchors and batteries	**4 538**	7 502
Fuel	**3 547**	8 543
Total	**46 755**	**58 668**

NOTE 4 — OPERATING LEASES

Amounts in NOK 1 000	2009	2008
Operating leases recognised as expense in the period		
Charter hire	**216 503**	246 159
Office premises	**10 157**	10 012
Total	**226 660**	**256 171**

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.

The Management decided to implement changes in the defined benefit plan with effect from September 1 2009. After September 1 2009 the pension payment to retired employees is regulated according to the Norwegian Pension Law's minimum requirement each year, instead of regulation in accordance with Norwegian National Insurance's base amount as of May each year. In addition, the funded part in disability-, spouse- and child-pension was closed as of September 1 2009. Hence, the Company do no longer pay a premium up-front for the future risk for the employees' potentially permanent occupational disability or death. The annual premium will cover the actual risk. These curtailments have an effect of - 15 236 on net pension obligation and -17 384 on the benefit expense (actuarial losses/gains are not included).

The number of employees included in the plan is reduced from 199 in 2008 to 138 in 2009. Employees that leave the Company before the age of retirement receive a paid-up policy. At the time of issuance of paid-up policies, the Company is relieved of any further obligations towards these people. The obligations are valued at the time of issuance of paid-up policies, and are derecognised from pension obligations and plan assets. This plan amendment has an effect of -10 466 on net pension obligation and -11 942 on the benefit expense (actuarial loss/gains are not included).

Total actuarial loss/gain from these changes has an effect of 10 186 on the benefit expense.

	2009	2008
Number of employees included in the defined benefit plan	**138**	199

Amounts in NOK 1 000	2009	2008
Accrued pension obligations at 31 December	**14 383**	32 998
Estimated effect of future salary increase	**14 595**	28 615
Estimated pension obligations at 31 December	**28 978**	**61 613**
Fair value of plan assets	**-15 235**	-18 235
Actuarial losses/(gains)	**13 910**	-16 435
Social security tax	**3 899**	3 799
Net pension obligations	**31 552**	**30 742**
Current service cost	**20 107**	21 512
Interest cost	**1 917**	1 910
Expected return on plan assets	**-783**	-1 354
Administration fee	**-**	154
Amortisation of actuarial (gain)/loss	**112**	254
Effect of curtailments and plan amendments	**-19 140**	-
Social security tax	**2 995**	3 113
Benefit expenses	**5 208**	**25 610**
Principal assumptions:		
Discount rate	**4.40 %**	3.80 %
Expected rate of return on pension plan assets	**5.60 %**	5.80 %
Expected future salary increases	**4.25 %**	4.00 %
Expected adjustments in National Insurance base rate	**4.00 %**	3.75 %
Expected rate of pension increase	**1.30 %**	3.75 %
Social security tax	**14.10 %**	14.10 %

NOTE 6 — REMUNERATION

The average number of employees during 2009 was 163.

Amounts in NOK 1 000	2009	2008
Wage costs:		
Salaries	**143 879**	161 424
Payroll tax	**16 273**	13 947
Pension costs	**5 208**	25 610
Other payments	**16 922**	21 384
Total	**182 282**	**222 365**

Executive Management remuneration

Amounts in NOK 1 000		Salaries	Bonus	Share options	Pension benefit	Other benefits	Total remuneration
Executive Management							
Roar Bekker, COO - CEO*	2009	4 244	1 108	576	105	268	**6 300**
Terje Eidesmo, CEO	01.01 - 25.05.09	1 010	635	278	38	51	**2 013**
Svein T. Knudsen, CFO	2009	1 642	828	545	85	127	**3 227**
Anette Mellbye, CLC	2009	1 511	675	335	112	18	**2 658**
*Roar Bekker							
COO	01.01 - 25.05.09						
CEO	26.05.09 - 31.12.09						

Payment after termination of employment

The former CEO was 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 CEO, have fixed salaries. In addition to the fixed salary, a bonus plan is in place. The bonus system is based on a combination of fulfillment of EMGS' goals and the individual goals. There are also car allowance agreements in place for most of the Executive Management Group and the Group is included in the Company's ordinary pension plan.

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

Board of Directors remuneration

Amounts in NOK 1 000	Directors' fee	Share options
Board of Directors		
Bjarte H. Bruheim, Chairman of the Board	3 510	-
Jeffrey Harris, Director	-	-
Christopher A. Wright, Director	250	-
Grethe Høiland, Director	187	-
Berit Svendsen, Director	187	-
Cecilie Arentz, Employee's representative	-	-
Friedrich Roth, Employee's representative	-	-

The amounts listed under Directors' fee have been expensed in 2009.

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 (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
Executive Management									
Roar Bekker	525 000	150 000	-	-	-	-	675 000	24.97	5.71
Svein T. Knudsen	460 000	125 000	-		-	-	585 000	22.38	5.30
Anette Mellbye	90 000	80 000	-	-	-	-	170 000	22.48	5.96
Board of Directors									
Bjarte H. Bruheim	355 000	-	-	-	-	-	355 000	17.31	2.5
Christopher A. Wright	20 000	-	-	-	-	-	20 000	10.95	1.5
Cecilie Arentz	10 500	5 000	-	-	-	-	15 500	21.43	5.7
Friedrich Roth	500	20 000	-	-	-	-	20 500	4.28	6.6

A - average exercise price for options exercised during 2009.
B - average exercise price for number of options by 31 December 2009.

Loans and guarantees

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

Amounts in NOK 1 000	2009	2008
Auditor expenses		
Statutory audit services (excl. VAT)	**1 000**	1 199
Tax advisory services (excl. VAT)	**1 301**	681
Further assurance services	**240**	220
Other non-audit services	**68**	619
Total auditor expenses	**2 609**	**2 719**

NOTE 7 — TANGIBLE AND INTANGIBLE ASSETS

Amounts in NOK 1 000	Property, plant and equipment	Patents	Software licenses etc.	Multi-client library	Total
Acquisition cost at 1 January 2009	554 872	15 000	31 867	89 030	**690 769**
Purchases	71 235	-	6 620	-	**77 855**
Disposals	-1 324	-	-	-	**-1 324**
Acquisition cost at 31 December 2009	624 783	15 000	38 487	89 030	**767 300**
Accumulated depreciation 1 January 2009	308 977	10 000	14 938	89 030	**422 946**
Depreciation/amortisation for the year	126 526	1 500	10 067	-	**138 093**
Disposals	295	-	-	-	**295**
Accumulated depreciation 31 December 2009	435 798	11 500	25 005	89 030	**561 334**
Net carrying value 31 December 2009	188 985	3 500	13 481	-	**205 966**
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 electromagnetic surveys (EM).

Addition of self developed assets in 2009 amounted to 6 582 (2008: 41 632).

Finance leases

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	2009	2008
Capitalised in the balance sheet 31 December	**121 054**	89 397
Accumulated depreciation	**-63 568**	-35 725
Net carrying value	**57 486**	**53 673**
Depreciation	**27 843**	20 681

	2009		2008	
Amounts in NOK 1 000	Nominal value	Present value	Nominal value	Present value
Leases due within 12 months	**25 758**	**23 560**	25 427	22 956
Leases due within the next 13 - 36 months	**28 271**	**24 626**	20 577	19 457
Remaining debt on leasing contracts 31 December	**54 029**	**48 186**	**46 004**	**42 413**

Amounts in NOK 1 000	2009	2008
Specification of R&D expenses		
External expenses	**1 695**	1 250
Materials	**346**	4 900
Internal time	**14 994**	10 645
Research grants	**-99**	- 5 634
Total R&D expenses	**16 936**	**11 160**

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

NOTE 8 — INCOME TAXES

Amounts in NOK 1 000	2009	2008
Taxes base specification		
Profit before tax	**-473 425**	-365 301
Permanent differences	**610**	2 178
Changes in temporary differences	**62 151**	55 162
Tax expenses abroad, paid	**-7 795**	-11 599
Taxable profits before utilisation of unused tax losses	**-418 459**	**-319 560**
Group contribution received	**-**	227
Tax losses carried forward	**418 459**	319 333
Taxable profit (this year tax base)	**-**	-
Income tax expenses		
Non-creditable foreign income taxes	**-917**	11 457
Total income tax expense	**-917**	**11 457**
Temporary differences		
Fixed assets	**-119 248**	-68 881
Accounts receivable	**-574**	-9 705
Provisions tax liability abroad	**-54 307**	-34 201
Pension obligations	**-31 552**	-30 742
Tax losses carried forward	**-1 108 930**	-690 471
Total temporary differences	**-1 314 611**	**-834 001**
Non-recognised deferred tax asset	**-368 091**	**-233 520**

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	-473 425	-132 559
Permanent difference		171
Other permanent difference (foreign income tax)		-2 183
Change in deferred tax assets, not recognised		134 571
Non-creditable foreign income taxes		-917
Calculated tax		**-917**
Effective tax rate in %		0.2 %

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
2009	418 459	-	418 459
Total	**1 171 268**	**62 338**	**1 108 930**

Unused tax losses can be carried forward indefinitely.

NOTE 9 — COLLATERALS

Long-term liabilities due in more than five years from December 31 2009 are 0.

Amounts in NOK 1 000	2009	2008
Collaterals		
Debts secured by pledge	**107 585**	55 140

The 2009 debt is a secured convertible loan from Fugro N. V bearing an interest at 7.00% p.a.
The 2008 debt was a credit facility with due date in May 2009, terms are LIBOR 7 days + 2.30% p.a.

Amounts in NOK 1 000	2009	2008
Pledged assets		
Accounts receivable	**-**	61 300
Tangible and intangible assets	**205 966**	267 823
Inventory	**46 755**	-
Total carrying value of pledged assets	**252 721**	**329 123**

As per 31 December 2009 the total pledge is 9 012 (2008: 14 110).

NOTE 10 —INVESTMENT IN SUBSIDIARIES

Company	Share ownership/ voting rights 2009	Profit/loss 2009	Equity December 31 2009	Location
EMGS Americas 1 AS	100 %	13	87	Trondheim, Norway
EMGS Americas 2 AS	100 %	13	85	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	66	60	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	99 %	2 220	11 667	Rio de Janeiro, Brasil
EMGS Americas Inc	100 %	1 414	-9 283	Delaware, USA
EMGS International B.V.	100 %	106	-214	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	1 %	-1 551	1 569	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100 %	998	181	Kuala Lumpur, Malaysia
Global EMGS Nigeria Ltd	35 %	1 083	-1 106	Lagos, Nigeria
EMGS Australia Pty Ltd	100 %	-220	120	Perth, Australia
EMGS AS	100 %	-	101	Trondheim, Norway
Total		**4 142**	**3 267**	

NOTE 11 — ONGOING PROJECTS

Part of accounts receivable which is recognised in 2009, but not invoiced per 31 December 2009 amounts to 19 384. There is no deferred revenue as of 31 December 2009.

The Company does not expect any loss on sales contracts in 2009.

NOTE 12 — RECEIVABLES

There has been made provision for doubtful receivables per 31 December 2009 of 574.

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

Amounts in NOK 1 000	2009	2008
Intercompany balances with group companies		
Trade receivables	-	-
Other receivables	**15 000**	62 362
Total intercompany receivables	**15 000**	**62 362**
Short term liabilities	-	-
Total intercompany liabilities	-	-

NOTE 13 — BANK DEPOSITS

Restricted cash related to employee tax was 4 538 as of 31 December 2009.

NOTE 14 — SHARE CAPITAL AND SHAREHOLDER INFORMATION

The Company's share capital consists of 121 574 261 shares at a par value of NOK 0.25, giving a total share capital of 30 393.

	Number of ordinary shares	Percentage
Number of shareholders		
Warburg Pincus	61 873 434	50.89 %
DNB NOR SMB, VPF	4 200 000	3.45 %
Bruheim, Bjarte Henry	3 000 088	2.47 %
Odin Offshore	3 000 000	2.47 %
Odin Norge	2 889 600	2.38 %
Sissener Sirius ASA	2 400 000	1.97 %
JP Morgan Chase Bank	2 130 000	1.75 %
Sundt AS	2 105 000	1.73 %
Skandinaviska Enskilda Banken	1 804 700	1.48 %
Morgan Stanley & Co International PLC	1 706 500	1.40 %
UBS A G, London Branch	1 414 900	1.16 %
Verdipapirfondet Handelsbanken	1 400 000	1.15 %
KLP LK Aksjer	1 320 000	1.09 %
DNB NOR Navigator, VPF	1 303 138	1.07 %
Alden AS	1 000 000	0.82 %
EM - SBL Holding AS	1 000 000	0.82 %
Landkreditt Norge	800 000	0.66 %
KLP AksjeNorge	796 000	0.65 %
NHO - P665AK	625 000	0.51 %
Strack, Kurt Martin	563 011	0.46 %
Others	26 242 890	21.59 %
Total	**121 574 261**	**100.00 %**

	Shares
Leading representatives of the Company hold the following shares	
CEO	100 000
Board of Directors	3 224 099

NOTE 15 — EQUITY

Amounts in NOK 1 000	Share capital	Share premium	Other paid-in capital	Other equity (uncovered loss)	Total
Equity 1 January 2009	**22 892**	**1 065 748**	**29 500**	**-637 714**	**480 426**
Share-based payments	-	-	7 221	-	**7 221**
Proceeds from private placement	7 500	127 500	-	-	**135 000**
Costs of private placement	-	-7 102	-	-	**-7 102**
Proceeds from options exercised	1	20	-	-	**21**
Equity component of convertible loan	-	49 866	-	-	**49 866**
Transfer of share premium to retained earnings	-	-816 091	-	816 091	**-**
Profit for the year	-	-	-	-472 508	**-472 508**
Equity 31 December 2009	**30 393**	**419 941**	**36 721**	**-294 129**	**192 926**

NOTE 16 — FINANCIAL ITEMS

Amounts in NOK 1 000	2009	2008
Financial income		
Interest income on short term bank deposit	**2 213**	7 662
Foreign exchange rate gains	**48 000**	108 085
Total financial income	**50 213**	**115 747**

Amounts in NOK 1 000	2009	2008
Financial costs		
Interest expense	**27 148**	22 106
Foreign exchange rate losses	**52 523**	83 460
Other financial expenses	**64**	6 398
Total financial costs	**79 734**	**111 964**
Net financial gain/(loss)	**-29 521**	**3 783**

NOTE 17 — INTEREST IN A JOINT VENTURE

EMGS has a 40 % owner share and 50% voting share in KJT Inc, USA, a jointly controlled entity which has a technology for shallow water surveys.

Amounts in NOK 1 000	2009	2008
Total equity in the company	**-13 528**	9 131
Net income for the year in the company	**-20 299**	4 271
Book value	**19 257**	70 961

In Q2 2009 EMGS did an impairment of the value of KJT of 51 704.

NOTE 18 — CONVERTIBLE LOAN

Fugro N.V has provided EMGS a NOK 150 000 000 secured convertible loan bearing an interest at 7.00% p.a in April 2009. 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 2 January 2012.

On April 30 EMGS secured a USD 5 million senior unsecured convertible bond bearing an interest at 9.00% p.a. The loan can at any time be converted into common shares in EMGS at the conversion price of USD 0.88 until the maturity date on 18 May 2011.

The economic components of the convertible bonds are:
a) a liability. On issuance of the convertible bond, the fair value of the liability component is determined using

a market rate for an equivalent non-convertible bond; and this is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.
b) an equity component. The residual of the proceeds is allocated to the conversion option that is recognised and calculated in shareholders' equity. The liability component was calculated first.

As a result of a breach of one of the covenants (equity ratio of more than 25% on the Group's balance sheet), the long term convertible loans are classified as current liability.

Amounts in NOK 1 000	Currency amount	Carrying value liability	Carrying value equity component	Interest rate	Term to maturity	Date of payment
Convertible loan	NOK 150 mill.	107 585	48 827	Fixed 7.0 %	2 years	2 January 2012
Convertible loan	USD 5 mill.	27 499	1 039	Fixed 9.0 %	1.4 years	18 May 2011

NOTE 19 — PROVISIONS

The Company recognises a provision for onerous contracts based on the vessel lease contracts on the vessels that are not used in production of the Company's services. EMGS ASA has calculated a best estimate of the net present value of future rental obligation based on the net charge of unavoidable lease payments on the non-operating vessels. For vessels that are sub-leased, the net amount of lease payments to the vessel owners and revenues from the sub-lease is recorded as a provision. As of December 31 2009, total amount accrued was 38 809 (2008:0).

Oslo, 24 March 2010

Bjarte H. Bruheim
Chairman of the Board

Christopher Alan Wright

Berit Svendsen

Jeffrey Alan Harris

Grethe Høiland

Friedrich Roth

Cecilie Arentz

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 2009

We have audited the annual financial statements of Electromagnetic Geoservices ASA as of 31 December 2009, showing a loss of NOK 472.508.000 for the Parent Company and a loss of USD 81.295.000 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, cash flows as well as the accompanying notes. The financial statements of the Group comprise the consolidated balance sheet, the statements of income, comprehensive income, cash flows and changes in equity as well as 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 2009, and the results of its operations and 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 2009, and the results of its operations, cash flows and 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, 8 April 2010
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)