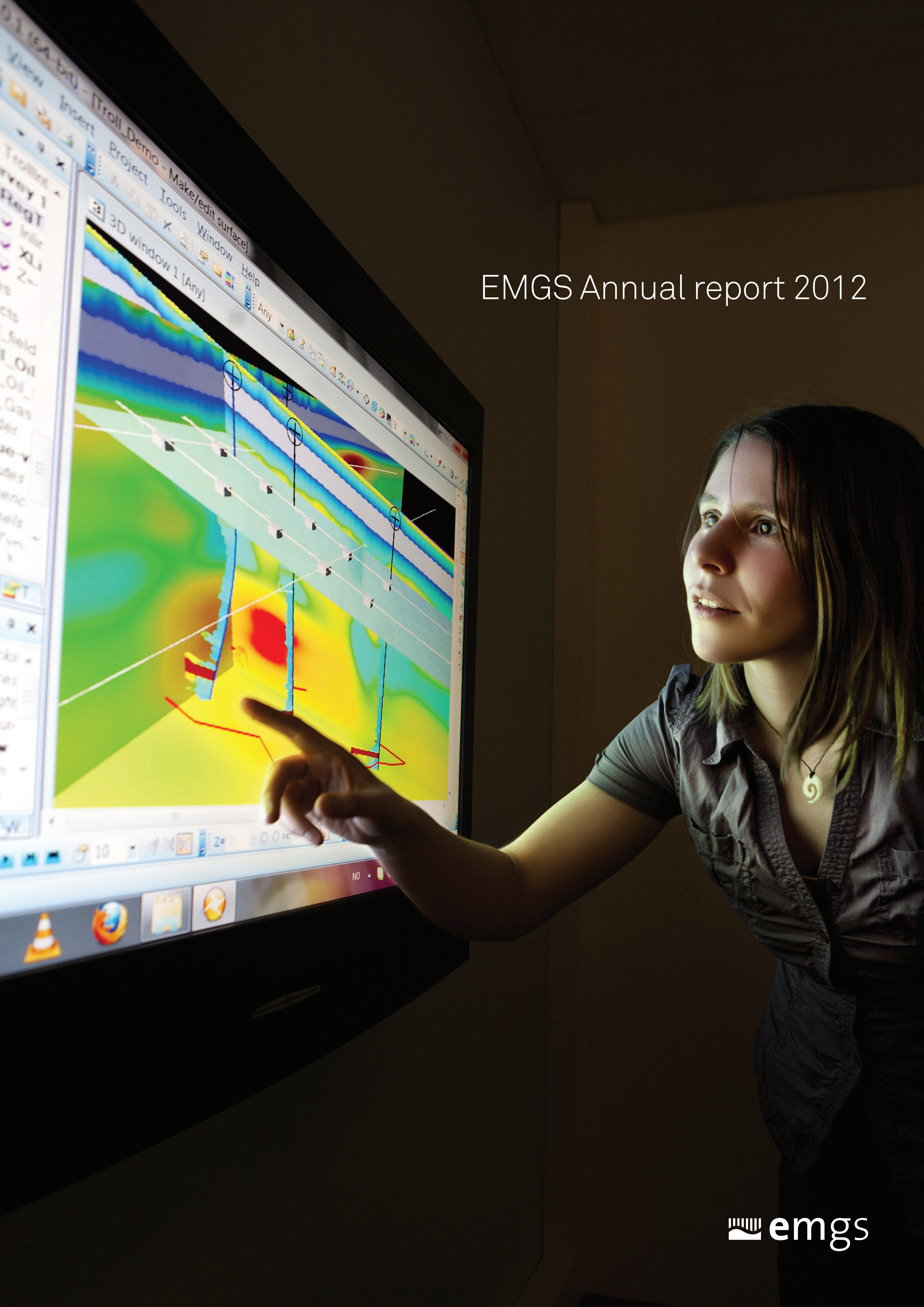

EMGS Annual report 2012

emgs

EMGS, the marine EM market leader, uses its proprietary electromagnetic (EM) technology to support oil and gas companies in their search for offshore hydrocarbons. EMGS supports each stage in the workflow, from survey design and data acquisition to processing and interpretation. The company's 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 risks and the finding costs per barrel.

EMGS has conducted more than 650 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 Oslo, Norway; Houston, USA; and Kuala Lumpur, Malaysia. Please visit
www.emgs.com for more information.

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Directors' Report

Electromagnetic Geoservices ASA ("EMGS" or the "Company"), with its subsidiaries (together the "Group"), is recognised as the world leader in the use of controlled-source electromagnetic and magnetotelluric (together "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 and appraisal tool than using traditional exploration techniques alone. The technology is not a replacement for seismic methods. Rather, it is complementary, as it provides oil companies with more information about the subsurface before drilling. Integrating EM data into the exploration workflow reduces exploration risk and costs and reduces environmental impact as the number of wells can be reduced through the use of EM.

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

EMGS has conducted more than 650 surveys to reduce exploration risk and improve drilling success rates across the world's mature and frontier basins in water depths ranging from 30 to 3500 m for more than 50 clients. EM surveys have been conducted under a wide variety of operating conditions and in virtually every major basin around the world.

In line with its strategy, EMGS has a flexible and scalable business. The combination of the fixed time charters on "BOA Thalassa", "BOA Galatea" and "Atlantic Guardian" and the pay-per-use charters on the "EM Leader" and the "EM Express" provides EMGS with capacity to quickly respond to market demand in Europe, Africa, Americas and Asia Pacific region.

EMGS coordinates its activities from its headquarters in Trondheim (Norway) and has business centres in Oslo (Norway), Houston (USA) and Kuala Lumpur (Malaysia). The Group also has offices in Rio de Janeiro (Brazil), Mumbai (India), Cape Town (South Africa), Aberdeen (UK) and Villahermosa (Mexico). In October 2012, the Company decided to move its business activity and personnel from the Stavanger office to the Oslo office: a process that should be complete in April 2013.

The Group generated gross revenues of approximately United States dollars ("USD") 200.8 million in 2012, an increase of 16.5 % over 2011 mainly due to a substantial growth in multi-client revenues. Operating expenses increased by 16.5 % to USD 171.6 million owing to higher operational activity. Earnings before interest, tax, depreciation and amortisation (EBITDA) for 2012 improved significantly over 2011, from USD 41.8 million to USD 55.9 million. Thus, total operating revenues, EBITDA and net income were the best ever in the history of EMGS.

During 2012, EMGS worked in accordance with the three-year strategy that it developed in 2011. The Company's overall objective is to build the EM market and to retain its number-one position through technology leadership. EMGS's strategy for achieving this is to expand the application of 3D EM beyond traditional de-risking of drilling decisions and into areas such as frontier scanning, shallow-water applications, delineation, appraisal and imaging of high-resistivity geological layers such as salt and basalt. Several measures have been put in place to accelerate adoption (persuade more customers to use EM data regularly), increase penetration (convince existing customers to use EM data more often) and build confidence in EM data.

In 2012, the Company has invested into further development of its equipment, most importantly stronger sources and improved receivers. EMGS launched two new source technologies that enable improved imaging of deeper targets in the subsurface. EMGS has developed and commercialized a purpose-built, high-current source for shallow waters ("Shelf Xpress") and a high bandwidth source ("Deep Xpress") for deeper waters. The aims are both to (i) image deeper subsurface targets and (ii) to provide improved quality data to the customers. During 2012, EMGS has performed test surveys using the Shelf Xpress over the same area as the conventional source in order to demonstrate improved quality. The results confirmed the predicted improvements.

The Company has established a joint industry project to develop a new generation of equipment for EM surveys. During 2012, Shell Global Solutions International B.V. and a major international oil company entered into a new agreement with EMGS whereby the three parties commit to the further development and production of the new generation equipment. The aim is to launch even stronger sources and more sensitive receivers within the scheduled project time of a few years.

EMGS believes that 3D EM data can add value in a new market segment, namely in high-risk, high-cost exploration areas of structural complexity where salt and basalt (volcanic rocks) make the interpretation of other geophysical data challenging. That is why the company in the second half of 2012 made investments in proof-of-concept surveys to demonstrate that the combination of CSEM, MT and seismic data can be used to map the thickness and distribution of salt/basalt layers and, ultimately, help to assess the hydrocarbon prospectivity of sediments below these layers. Preliminary results from these surveys indicate that 3D EM data can deliver material imaging improvements in areas of complex geology. EMGS believes that this has the potential to significantly increase the Company's addressable market going forward.

Since 2008, the Company has invested in a rapidly expanding multi-client data library which stands at approximately 53,000 km^2 of 3D EM data. As of 31 December 2012, total sales amount to USD 97.9 million and total investments amount to USD 51.0 million. The ending multi-client balance as of 31 December 2012 was USD 14.1 million, of which USD 13.0 million relate to investments made in 2012.

The Company has also maintained its demand-driven vessel strategy to achieve the right mix of long- and short-term vessel leases and increase capacity in-line with expected demand by proactively, but not aggressively, expanding the fleet.

Significant events during 2012 included completing work for PEMEX on the largest EM contract ever awarded. An extension of this contract worth approximately USD 39 million resulted in work continuing for PEMEX to the end of August. EMGS also successfully completed its USD 90-million contract with Petrobras. Work continued through December based on a contract extension worth approximately USD 12 million.

In March, EMGS started a pre-funded multi-client 3D EM campaign in the Barents Sea ahead of Norway's 22nd exploration licensing round. The campaign was completed during the first half of the third quarter.

In August, the Company received a letter of award for a contract worth approximately USD 20 million to acquire 3D EM data offshore Brunei. Data acquisition commenced in September, continued through to the end of the year and was completed in January. During the autumn, EMGS announced contract awards that secured backlog for 2013 for the EM Leader in Asia.

In December, EMGS signed a three-year global frame agreement with Shell International Exploration & Production B.V. to provide 3D EM services.

Public listing and capital increase

EMGS's stock was listed on the Oslo Stock Exchange throughout 2012. The listing took place on 30 March 2007.

Corporate governance and social responsibility

EMGS is committed to maintaining high standards of corporate governance and social responsibility.

The Company believes that effective corporate governance is essential to its well-being and that it establishes the framework by which it delivers services to its customers and value to its shareholders.

EMGS is registered in Norway as a public limited liability company. Its governance model is based on Norwegian corporate law and the Norwegian Code of Practice for Corporate Governance, as applicable at all times. In addition, the Company implements other corporate governance guidelines beneficial to its business.

EMGS's social responsibility guidelines are based on internal policies and an anti-corruption compliance programme.

The Company does not have provisions in its articles of association that restrict the right to trade in the shares of EMGS. EMGS is not aware of agreements between shareholders that restrict the possibilities of trading in or exercising the voting rights attached to shares or agreements, the terms of which take effect, alter or terminate as a result of a takeover bid.

For further details regarding corporate governance, please see the section entitled Corporate Governance in this annual report.

Research and development

Research and development ("R&D") is part of the Company's foundation. EMGS is fully committed to improving its products and developing new applications, which will, in turn, provide its customers with further improvements in EM surveying results.

In 2012, EMGS's R&D expenditure was USD 4.1 million (USD 4.1 million in 2011), most of which relates to personnel expenses. The Company capitalises certain R&D expenses in accordance with International Financial Reporting Standards ("IFRS").

Going concern

As of 31 December 2012, the carrying value of equity was USD 110.4 million.

In accordance with the Norwegian Accounting Act § 3-3a, we confirm that the financial statements have been prepared under the assumption of going concern. This assumption, which is based on income forecasts for the year 2013 and the Group's long-term strategic forecasts, is valid.

Factors affecting results of operations

The Group's operational results depend on several factors, including but not limited to, demand for its EM service; contract economics and utilisation; the charter terms of its vessel fleet; data acquisition; and data processing revenues.

Demand for EM services

The overall demand for EMGS's services is dependent, in part, on offshore exploration and development trends, and the amount of spending by oil and gas companies. In recent years, the Company's customers and large oil and gas consuming nations have perceived a growing and potentially lasting imbalance between the supply of and demand for hydrocarbons. The demand for EM services increased in 2011 and 2012.

Revenues
Most of the contracts entered into during the last three fiscal years were for total service solutions, which were, in part, driven by the increasing numbers of recurrent customers. The multi-client business segment accounted for 12% the Company's revenues in 2012, up from 6% in 2011.

Fleet status and utilisation
Currently, the Company has two long-term time charters for its purpose-built 3D EM vessels, the BOA Thalassa and the BOA Galatea. These vessels operated in the Gulf of Mexico and Brazil respectively throughout 2012.

During 2012, the Atlantic Guardian operated until completion of the basalt mapping project in the Norwegian Sea in the second half of November. It then transited to dry dock in Bergen for class renewal and general maintenance work at the vessel owner's cost.

From February 2012, the EM Leader operated in Asia under various contracts, including a USD 20 million contract in Brunei.

The average number of vessels operating on EM surveys during 2012 was 3.5. Vessel utilisation in 2012 for the full year came in at 82%, which is the same as in 2011.

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 affect the Group's operating results.

Seasonality
Adverse weather conditions can result in lost time when vessels are forced to relocate and reduce their activity. In addition, the Group's operational results fluctuate from quarter to quarter because of oil and gas companies' spending patterns.

Foreign currency effects
Although the Group conducts operations in several countries around the world, historically, nearly all of its business has been transacted through EMGS, the parent company. However, as a consequence of the requirements in the jurisdictions in which the Group contracted throughout 2012, more contracts have been entered into by wholly owned subsidiaries of the parent company.

Currency transaction exposure occurs to some extent during the ordinary course of business and when the relevant exchange rates alter between the date of a transaction and the date of the 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 operation

The year ending 31 December 2012 is compared below with the year ending 31 December 2011. Please note that the numbers in brackets in the following section refer to the corresponding numbers in 2011.

The Group prepares its accounts in accordance with IFRS, as adopted by the EU.

Operating revenue
EMGS recorded revenues of USD 200.8 million for the year ending 31 December 2012 (USD 172.4 million), an increase of 16.5 %. Contract sales totalled USD 176.1 million (USD 162.9 million) and multi-client sales totalled USD 24.7 million (USD 9.5 million).

Total operating expenses
Operating expenses increased by 16.5 % to USD 171.6 million for the year ending 31 December 2012 (USD 147.3 million) owing to higher operational activity.

Charter hire, fuel and crew expenses ("charter costs")
Charter costs were increased to USD 68.8 million in 2012 (USD 67.1 million). This change was mainly due to an increase in the vessel fleet and the activity level in 2012.

Employee expenses
Employee expenses in 2012 totalled USD 55.1 million (USD 43.6 million). The number of employees at the end of 2012 was 272 (264).

Depreciation and amortisation
Depreciation and amortisation increased to USD 13.9 million in 2012 (USD 13.0 million). The increase was due to investment in equipment.

Multi-client amortisation
Amortisation of the multi-client library was USD 12.7 million in 2012 (USD 3.7 million).

Other operating expenses
Other operating expenses in 2012 amounted to USD 21.1 million (USD 19.9 million). The increase was mainly due to higher operational activity.

Financial income and expenses
The financial items for the year 2012 amounted to a negative USD 11.3 million (negative USD 7.2 million). A large part of the loss recorded was due to loss on net foreign currency.

Income tax expenses
Income tax expense amounted to USD 6.0 million (USD 7.8 million). These taxes relate to results in foreign jurisdictions.

Liquidity and capital resources

Cash flow from operating, investing and financing activities
The net cash provided by operating activities was USD 28.7 million for 2012 (USD 23.6 million).

The net cash applied in investing activities for 2012 was USD 42.8 million (USD 6.0 million). The principal components of these expenditures related to purchase of property, plant and equipment, and the multi-client library.

The net cash applied in financing activities for 2012 totalled USD 4.5 million (USD 18.9 million provided). In 2012, most of this sum was used to service the unsecured senior NOK 250 million bond loan that matures in May 2014.

Liquidity requirements and financing facilities
EMGS's cash flow budget indicates that the Group will meet its liquidity requirements for 2013.

The Group's liquidity needs fluctuate from quarter to quarter depending, principally, on income, capital expenditures and changes in the number of vessels in operation and cash balance.

Cash and cash equivalents, excluding restricted cash, totalled USD 39.3 million as of 31 December 2012 (USD 57.8 million).

EMGS has one bond loan totalling USD 44.8 million as of 31 December 2012. In addition, EMGS has financial lease obligations of USD 2.1 million. The Group's current debt as of 31 December 2012 constituted 37.4% of its total debt (44.6%).

The Group's financial position is sound and adequate to settle its current debt as of 31 December 2012 with its most liquid assets.

Financial risk

Market risk
The Company is subjected to currency transaction exposure when it generates revenues in currencies other than those in which it incurs expenses. EMGS incurs approximately 39% of its expenses in USD, including most of its current vessel, fuel and operational crew costs, while approximately 96% of its revenues are in USD. 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, it may seek to hedge such exposure in the future.

The Company has limited exposure to interest rate risk, as the interest risk exposure as a result of the bond loan has limited effects on the total financial risk.

Liquidity risk
EMGS's sources of liquidity include cash balances, cash flow from operations, loans and equity issuances. The primary sources of funds for its short-term liquidity needs will be cash flow from operations, whereas the long-term sources of funds will be from cash from operations and other debt or equity financings.

Credit risk
The Group considers that it has no significant concentration of credit risk. Its clients are major international, national and independent oil and gas companies, mostly with impeccable credit standings and histories. However, occasionally, a smaller oil and gas company may be on the client list and, in these cases, extraordinary caution is conducted in the credit evaluation. In 2012, EMGS did not experience any significant defaults in payments from customers.

The working environment and the employees

As of 31 December 2012, the Group had 272 employees, 50 of whom employed at its regional office in Houston, USA; 20 of whom employed at the regional office in Kuala Lumpur, Malaysia; and 17 of whom employed at the regional office in Stavanger, Norway. In October 2012, the Company decided to move its business activity and personnel from the Stavanger office to the Oslo office. The process should be complete in April 2013. The Board believes that the Group's general working environment is good. It is a prioritised goal for the management team to maintain this status. There was close contact between management and the employee representatives throughout 2012.

The internal educational and training programme, "the EMGS Training Centre", continues to provide internal and external educational programmes. As many employees are involved in offshore operations, a dedicated health, safety and environment ("HSE") training programme has been put in place to ensure the safest possible working environment. The Company sponsors and promotes various social and sporting activities, as management firmly believes these to be beneficial in securing a good long-term working environment.

The percentage of absences due to illness in 2012 was 1.0 % (1.1%). During 2012, the Company had two incidents. One incident that resulted in restricted work cases. The employee got medical treatment on board. Hospitalisation was not necessary and no permanent disability occurred. There second incident was a lost-time injury, without need for medical treatment and there was no permanent disability. The Company has a good record relating to quality, health, security and environment issues.

Equal opportunities and discrimination statement

EMGS has defined and implemented guidelines to protect against gender discrimination. At the end of 2012, 23 % (19%) of the Group's 272 employees was female. The corresponding figure for managers is 22% women and the Group Executive Management consisted of one woman and three men. The Board of EMGS consisted of three women and four men.

The Group will continue to prioritise its goal of improving the current imbalance by actively following a recruiting strategy to this effect. EMGS recognises that the average compensation for its female employees is lower than the average workforce figure. This can be explained by high degree of representation of males at management level and among the technical professionals.

The discrimination acts 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 actively working in a systematic and determined way to encourage the Act's purpose within its business. The activities include recruiting, salary, working conditions, promotion, development opportunities and protection against harassment. These are issues of importance for EMGS's working environment, as the Group has employees from more than 28 nations with a multitude of languages, cultures, ethnicities, religions and faiths. The Group uses English as the company language so that all employees can take part in communication.

The Group's aim is to have a workplace with no discrimination due to reduced functional ability and is actively working to design and implement the physical conditions so that as many people as possible can utilise the various functions. For employees or new applicants with reduced functional ability, individual arrangements are concerning workplace and responsibilities. For work offshore, the Group has limited possibilities for offering work to employees with reduced functional ability.

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 could 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 the 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 2012.

Allocation of net income

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

Other equity	KNOK 110 387
Net income allocated	KNOK 110 387

The Company does not have distributable equity as of 31 December 2012.

Outlook

In 2012, EMGS made significant investments in new technology, product development and its rapidly growing multi-client data library, all of which aim to expand the addressable market and increase future revenues. The Company also partnered with seismic service providers to position its 3D EM product offering better in the exploration and production workflow. This, along with increased EM market activity, provides the Company with a solid foundation for further revenue growth in 2013 and beyond. However, EMGS acknowledges that EM spending patterns and the rate of industry adoption remain challenging to predict.

Oslo, 20 March 2013

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen

Jeffrey Alan Harris

Magni Hofstad

Lodve Berre

Roar Bekker
CEO

Responsibility statement

Today the Board of Directors and the Chief Executive Officer reviewed and approved the Directors' Report and the consolidated and separated annual financial statements for Electromagnetic Geoservices ASA ("EMGS" or the "Company"), for the year ended as of 31 December 2012.

EMGS's consolidated financial statements have been prepared in accordance with IFRSs and IFRICs as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act, and that should be applied as of 31 December 2012. The separate financial statements for EMGS ASA have been prepared in accordance with Norwegian Accounting Act and Norwegian accounting standards as of 31 December 2012. The Directors' report for the Group and the Company is in accordance with the requirements in the Norwegian Accounting standard no 16, as of 31 December 2012.

To the best of our knowledge:

· the consolidated and separate annual financial statements for 2012 have been prepared in accordance with applicable financial reporting standards

· the consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and profit/(loss) as a whole as of 31 December 2012 for the group and the parent company

· the Directors' report for the Group and the Company includes a fair review of
  - the development and performance of the business and the position of the Group and the Company
  - the principal risks and uncertainties the Group and the Company face

Oslo, 20 March 2013

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen

Jeffrey Alan Harris

Magni Hofstad

Lodve Berre

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. EMGS's objective is to comply with all the relevant laws and regulations affecting the Company and its business activities, and the Norwegian Code of Practice for Corporate Governance ("Code of Practice"). The Company's Board of Directors adopted the Code of Practice as of 23 October 2012. The Code of Practice is available on www.nues.no. The Company may deviate from the principles of the Code of Practice if required for special purposes.

The following sets out how the Code of Practice is accommodated through the financial year 2012 for each section. Any deviations from the Code of Practice are addressed in relation to the relevant section. The Company is listed on the Oslo Stock Exchange and, therefore, also complies with the corporate governance requirements of exchange's rules for listed companies. The exchange's rules are available at www.ose.no.

In accordance with the Norwegian Accounting Act § 3-3b, EMGS is required to report annually to give an account of its principles and practices relating to corporate governance in the directors' report or a document referred to in the directors' report. EMGS refers to this document in the directors' report.

The Public Limited Liability Companies Act § 5-6 (4) requires that the ordinary general meeting deals with the report on corporate governance. This report will, therefore, be presented to the general meeting to be held on 21 June 2013.

1. Implementation and reporting on corporate governance

Governance is in focus at all levels of EMGS and is reflected in its corporate documents, articles of association, policies and business strategy. The Company has high standards for ethics and corporate social responsibility, and 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. The Company has adopted an anti-corruption compliance programme.

2. Business

EMGS is the market leader in electromagnetic (EM) imaging. Pursuant to Section 3 of the Company's articles of association, the Company's purpose is as follows:

"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 articles of association provide a definition of the scope of activity that ensures the shareholders' control of the business and its risk profile without interfering with the roles of the Board of Directors and management.

3. Equity and dividends

As of 31 December 2012, 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 need for financial strength is considered by the Board on a continuous basis in light of the Company's objectives, strategy and risk profile. The Company aims to create value for its shareholders over the long term through increases in share price in addition to dividends. At present, the Company does not intend to pay dividends.

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

In the annual general meeting held in 2012, the Board of Directors was given authorisations, as described below, regarding share capital increases and the acquisition of own shares:

- The Board of Directors was given authorisation to increase the share capital by up to NOK 4,959,651.25 through one or more subscriptions equal to an issuance of up to 19,838,605 new shares each with a par value of NOK 0.25. Further details are set out in a resolution by the annual general meeting that states that the authorisation will be utilised in connection with potential acquisitions of companies or businesses within the oil and energy sector, including the oil service sector, and/or to finance general corporate purposes. The authorisation is valid until 30 June 2013.

- The Board of Directors was given authorisation to increase the share capital by up to NOK 1,875,000 equal to an issuance of up to 7,500,000 new shares each with a par value of NOK 0.25. Further details are set out in a resolution by the annual general meeting that states that the authorisation will be utilised for fulfilling the Company's obligations towards holders of options, should such options be exercised. The authorisation is valid until 30 June 2013.

· The Board of Directors was given authorisation to acquire shares in the Company. The maximum par value that can be acquired pursuant to the authorisation is NOK 10,000,000. The minimum amount that may be paid for each share acquired pursuant to the authorisation is NOK 0.25; the maximum amount is NOK 50. Further details are set out in a resolution by the annual general meeting that states that the shares are to be disposed of as part of satisfying existing or future employee incentive schemes; as part of consideration payable for acquisitions made by the Company; as part of consideration for any mergers, demergers or acquisitions involving the Company; financing of general corporate purposes; by way of the cancellation of the shares in part or full; or to raise funds for specific investments. The authorisation is valid until 14 August 2013.

At the date of this report, the Company does not own any treasury shares.

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. Where the Board of Directors resolves to carry out an increase in the share capital and waive the pre-emption rights of the existing shareholders on the basis of a mandate granted to the Board of Directors, an explanation will normally be publicly disclosed in a stock exchange announcement issued in connection with the increase of the capital. Any transactions the Company carries out with its own shares will, as a general 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, a shareholder's parent company, members of the Board of Directors, members of the executive personnel or close associates of any such parties, the Board of Directors will, as a general rule, arrange for a valuation by an independent third party.

EMGS has implemented procedures for the Board of Directors, the board committees and the executive personnel to ensure that any conflicts of interest connected to agreements entered into by the Company are 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, and that such meetings are an effective forum for the views of shareholders and the Board of Directors.

The notice calling the general meeting along with a form for appointing a proxy and sufficiently detailed support information, including proposals for resolutions and comments on matters where no resolution is proposed, are disclosed on the Company's website www.emgs.com. The notice is sent to all shareholders with known addresses no later than 21 days before the date of the general meeting. This is established in the articles of association. Resolutions and supporting information are sufficiently detailed and comprehensive to enable shareholders to form a view on all matters to be considered in the meeting. The Company will make appropriate arrangements for the general meeting to vote separately on each candidate nominated for the Company's corporate bodies.

Shareholders that cannot attend the general meeting may be represented and exercise their voting rights through proxy. A person will be nominated to be available to vote as a proxy on behalf of shareholders. Proxy forms will enable the proxy holder to cast votes for each item separately. The final deadline for shareholders to give notice of their intention to attend the meeting or to vote by proxy will be set in the notice for the meeting. According to Section 9 of the articles of association, the Board of Directors may decide that the shareholders can participate in the general meeting by mean of an electronic aid, including that they may exercise their rights as shareholders electronically.

Board representatives will, if possible, attend the general meeting. The collective Board of Directors and the auditor will attend the general meeting when the circumstances require. In any case, the auditor will be present at the ordinary general meeting, as will, in general, the Chief Executive Officer and the Chief Financial Officer.

The Code of Practice stipulates that the Board of Directors should have arrangements to ensure an independent Chairman for the general meeting. The Company has 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

In the annual general meeting held on 13 June 2012, it was resolved to establish a nomination committee. Jogeir Romestrand (Chairperson), Johan Hvide and Kristine Tveteraas were elected as members for a period of two years. The nomination committee will prepare proposals for the annual general meeting, i.e., regarding the election of board members. The recommendation to the general meeting relating to the election will be available in time to be sent with the notice of the general meeting, so that the shareholders have the opportunity to submit their views on the recommendation to the nomination committee ahead of the meeting. Further details are set out in Section 12 of the articles of association and in the guidelines for the nomination committee, which were approved by the annual general meeting in 2012.

The Board will suggest to the annual general assembly that leader for the nomination committee shall receive USD 9,000 per year and the other members of the nomination committee shall receive USD 6,000 per year as compensation for their work for EMGS on the committee.

8. Board of Directors: composition and independence

In accordance with the articles of association, the Board of Directors will consist of 5–10 board members. At present, there are six members on the Board of Directors, including two employee representatives. At least three board members are independent of the major shareholders and the executive personnel. Four men and two women currently serve as board members. There were seven members on the Board of Directors until Iman Hill resigned on 18 March 2013 as a consequence of her new employer restricting directorship with oil service companies. At the date of this report, candidates are being considered by the nomination committee. It is anticipated that the annual general meeting to be held on 21 June 2013 will be asked to elect a replacement for Iman Hill.

Any proposal for the election of shareholder-appointed board members are made with a view to ensuring that the Board of Directors can attend to the shareholders' common interest and the Company's need for competence, capacity and diversity. That the board should function well as a collegial body is taken into consideration when proposing and electing board members. The Chairman of the Board of Directors will be elected by the general meeting. Board members are encouraged to own shares in the Company. Three of the six current 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, so, consequently, may 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.

At the date of this report, the Board of Directors consists of the following:

· Bjarte Bruheim (Chairman)
· Stig Eide Sivertsen
· Jeffrey Allan Harris
· Berit Svendsen
· Magni Hofstad (employee representative)
· Lodve Berre (employee representative)
· Marianne Bjørkhaug (deputy employee representative)
· Arve Furunes (deputy employee representative)

The shareholder-elected directors were appointed for a term of two years at the annual general meeting held in 2011, and must therefore be re-elected at the annual general meeting in 2013 in order to continue. The employee representatives were appointed for a term of two years in an election held by the employees in 2011, so new employee representatives will also be elected prior to the general meeting in June 2013.

9. The work of the Board of Directors

The Board of Directors is responsible for the Company's business and supervising the executive personnel. This responsibility includes implementing control systems and ensuring that the Company is operated in accordance with the applicable legislation and the Code of Practice. The Board of Directors prepares an annual plan for its work focusing on goals, strategy and implementation, in addition to instructions to the executive personnel.

The Board of Directors' working methods and interactions are subject to annual revision. In this respect, the Board of Directors evaluates its efforts 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. In order to ensure a more independent consideration of matters of a material character in which the Chairman of the Board of Directors is or has been personally involved, such matters will be chaired by another member of the Board of Directors.

The Board of Directors has established and stipulated instructions for an audit committee and a compensation committee to assist them. These committees are composed of board members.

At the date of this report, the audit committee consists of the following:

· Stig Eide Sivertsen
· Bjarte Bruheim

At the date of this report, the compensation committee consists of the following:

- Bjarte Bruheim
- Berit Svendsen
- Jeffrey Harris

10. Risk management and internal control

The Board of Directors ensures that the Company has sound risk management and an internal control system that are appropriate to its activities. The risk management and internal control systems in EMGS are based on its corporate values, ethics guidelines and standards for corporate social responsibility. The Board of Directors reviews the Company's internal controls and the main areas of risk annually.

EMGS's management conducts day-to-day follow-up of financial management and reporting. Management reports to the audit committee before the publication of the quarterly and annual reports. The audit committee assesses the integrity of EMGS's accounts. It also inquires into, on behalf of the Board of Directors, issues related to financial review and internal control, and the external audit of EMGS's accounts. The Board of Directors ensures that EMGS is capable of producing reliable annual reports and that the external auditor's recommendations are given thorough consideration.

A description of the Company's internal control and risk assessment systems for financial reporting is included in the annual report, Note 3.

11. Remuneration for the Board of Directors

The ordinary general meeting decides annually on the remuneration paid to members of the Board of Directors. With effect from the ordinary general meeting in 2013, the nomination committee will prepare proposals for the ordinary general meeting regarding remuneration for Board members. The remuneration of the Board of Directors will reflect the board's responsibility, expertise and time commitment, and the complexity of the Company's activities. The Code of Practice recommends that remuneration for 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, except as described below, granted options to members of the Board of Directors after its shares were listed on the Oslo Stock Exchange.

However, the annual general meeting held in 2012 resolved that 250,000 options should be granted to the Chairman in connection with a grant of options to the employees in the Company. This grant was proposed on the basis that the Chairman performs services for the Company beyond the work directly related to his directorship. Said 250,000 options have a strike price of NOK 19.30 and will expire on 14 February 2019. The remaining options currently held by the Chairman were granted in 2006 (before the listing in March 2007), and will expire on 1 January 2014 (100,000 at NOK 5.77). The employee representatives on the Board, Lodve Berre (15,500 options) and Magni Hofstad (41,000 options), hold options, but these were granted to them as employees of the Company not as board members.

The Chairman of the Board has an agreement with the Company for services performed beyond the work directly relating to his directorship that has been approved by the general meeting. The remuneration set out in this agreement covers those services relating to his directorship and all other services he performs for the Company. Except for the Chairman, none of the shareholder-elected board members are engaged by the Company as other than board members.

In accordance with the resolution by the extraordinary general meeting in the Company on 13 June 2012, the remuneration to the Board of Directors for 2012 is:

· Bjarte Bruheim	USD 554,000
· Jeffrey Harris	USD 45,000
· Berit Svendsen	USD 45,000
· Stig Eide Sivertsen	USD 47,500
· Iman Hill	USD 17,500

Grete Høiland, who resigned from the Board in 2012, received USD 17,500 for her services until her resignation.

Berit Svendsen and Jeffrey Harris have received an additional USD 12,500 for their work on the compensation committee in 2012. Stig Eide Sivertsen received an additional USD 12,500 for his work as chairman of the audit committee in 2012.

Bjarte Bruheim served on both the audit committee and compensation commitee, but is does not receive additional compensation for this.

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

See the annual report, in particular notes 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 management personnel 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 annually evaluates salary and other remuneration for the Chief Executive Officer. Roar Bekker served as Chief Executive

Officer throughout the year. The remuneration to the Chief Executive Officer is stated in Note 6 to the financial statements 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, which is required by law.

Performance-related remuneration of the executive personnel is linked to value creation for shareholders or the Company's performance over time. The performance-related remuneration to the executive personnel is subject to an absolute limit.

The Board of Directors' believes that the salary levels of executive personnel should be competitive.

13. Information and communications

The Company makes public quarterly and annual reports pursuant to the Oslo Stock Exchange regulations. The Board of Directors presents information to the shareholders and the public in a correct, complete and timely manner. Such information is normally published on the Company's web page at the same time as it is distributed 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 equally with regards to information from the Company, unless otherwise required on the basis of special considerations. It is considered 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 simultaneously, and no later, with the commencement of the presentation. The presentations are simultaneously broadcast 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 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. Takeovers

The Board of Directors endorses the recommendation of the Code of Practice for corporate governance and takeover bids. EMGS's articles of association do not contain any restrictions, limitations or defence mechanisms on acquiring the Company's shares.

In accordance with the Securities Trading Act and the Code of Practice, the Board has adopted guidelines for possible takeovers.

In the event of a takeover bid, the Board will, in accordance with its overall responsibility for corporate governance, act for the benefit of all Company shareholders. The Board of Directors will not seek to hinder or obstruct takeover bids for EMGS's activities or shares, unless there are good reasons.

If an offer is made for EMGS's shares, the Board of Directors will make a recommendation on whether the shareholders should accept the offer and will normally arrange a valuation from an independent expert.

15. Auditor

The external auditor presents an annual plan to the audit committee covering the main features for carrying out the audit. The external auditor participates in meetings of the audit committee, the Board of Directors meeting that approves the annual financial statements and other meetings on request. The external auditor presents the result of the audit to the audit committee and the Board of Directors in the meeting dealing with the annual report, including presenting any material changes in the Company's accounting principles and significant accounting estimates, and reporting any material matters on which there has been disagreement between the external auditor and EMGS's executive management.

The external auditor annually presents internal control weaknesses and improvement opportunities to the audit committee and, when appropriate, to the Board of Directors. The Board of Directors holds a meeting with the auditor at least once a year where neither the Chief Executive Officer nor a member of management is present.

The Board of Directors has adopted instructions as to the executive personnel's access to the use of the external auditor for services other than auditing. The external auditor provides an overview of his remuneration divided into fee paid for audit work and any fees paid for other specific assignments, which are presented at the annual general meeting, in addition to the annual report.

The external auditor has given the Board of Directors a written notification confirming that the requirements for independence are satisfied.

Determination of salary statement

The Board of Directors of Electromagnetic Geoservices ASA ("EMGS" or the "Company") has prepared this declaration in accordance with the Norwegian Public Limited Liability Companies Act section 6-16a. This declaration shall be presented to the Annual General Meeting of EMGS to be held on 21 June 2013 in accordance with the Norwegian Public Limited Liability Companies Act section 5-6 subsection three.

1. Guidelines for determination of management remuneration

1.1 Main principles for determination of management remuneration for the financial year 2012

The goal of the Company's policy on salary and compensation ("Remuneration") for executive management ("Management") is to recruit and retain world-class, skilled leaders who have the capacity to develop, manage and lead EMGS. The Remuneration shall consist of non-variable compensation ("Basic Salary") and variable forms of compensation such as bonuses, options and special payments ("Additional Compensation").

The Basic Salary will be competitive, but not leading, and will be set based on the manager's skills, competence, capacity and level of responsibility in the organization. When determining the Basic Salary, the Company takes into consideration competitor data for companies that operate within the same businesses area as EMGS and in the country in which the manager resides.

The main element of the management Remuneration shall be the Basic Salary. The Basic Salary should be motivational and aimed to encourage management to strive for constant improvement and development of the Company's operations and results.

Additional Compensation is used to motivate managers' efforts on behalf of the Company. The Board of Directors yearly evaluates the basis for awarding a performance bonus linked both to the performance of the Company and the manager's individual performance. The year-end performance bonus is capped to 40 percent of the Basic Salary, and the maximum is specified in the individual employment contract for each employee. In addition, the Board of Directors recognizes the importance of having sufficient flexibility to allow for a total additional bonus capped to 100 percent of the total basic salary per year in particular circumstances. For instance, there may be a need for additional retention incentives to key employees in unexpected situations like mergers and acquisitions implying change of control.

A part of the total remuneration may also be in the form of shares and options in the Company. In the Annual General Meeting held in 2011, it was resolved to authorize the Board to issue a maximum of 10,000,000 options over three years under the employee option program to employees (not only management), and that the maximum outstanding options shall not at any time exceed 7.5% of the registered number of shares in the Company. The total number of outstanding options as at 31 December 2012 was 8,329,507.

As the Additional Compensation is designed to provide incentives for extraordinary performance, the criteria must be linked to factors which the individual manager is able to influence. EMGS aspires to have a Remuneration system based on teamwork and which encourages efforts that bring results beyond the individual manager's sphere of responsibility.

The Remuneration system is simple, comprehensible and easy to administrate.

To achieve the stated goal of attracting and retaining top talent, the Remuneration system will be sufficiently flexible and allow for certain special solutions if required in particular circumstances. EMGS is involved in international businesses and it is important the Company attracts skilled managers resident in other countries than Norway. The Remuneration system will allow for special solutions to attract and retain such managers if considered to be in the best interest of the Company.

1.2 Determination of Remuneration

Basis Salary and Additional Compensation

The Management of the Company will receive a Basic Salary and may in addition be granted Additional Compensation. The Basic Salary is the main element of a manager's Remuneration.

Total Remuneration is the aggregate of a manager's Basic Salary and Additional Compensation. This level is to be competitive and motivational, but not leading.

In the following, the Board of Directors has commented on the individual benefits that are embraced by the Additional Compensation in more detail. Unless specifically mentioned, no special terms, conditions or allocation criteria apply to the benefits mentioned.

Additional Compensation

a) Benefits in kind

Managers will ordinarily be offered the benefits in kind that are common for comparable positions, e.g. free telephone service, home PC, free broadband service, newspapers, company car/car scheme and parking. No particular limitations apply on the type of benefits in kind that can be agreed.

b) The bonus programme

The Company has a bonus programme for all employees, which has been established by the Board of Directors. The current bonus programme was adopted by the Board of Directors in 2009 and is reviewed annually. The Board of Directors intends to continue the programme through 2013 and until the Annual General Meeting for 2013 in 2014, although adjustments may be made.

In the current performance bonus system the variable benefits is limited to a maximum of 40% of annual Basic Salary for the CEO and the other managers; however, the bonus is limited to a maximum of 100 percent of annual Basic Salary for the CEO and the other managers with respect to an additional bonus in extra-ordinary situations. The bonus is tied to the financial performance of the Company, events in the Company and other factors which the individual manager is able to influence. The level of bonus is tied to the achievement of agreed goals for the individual manager. The Board of Directors has maintained the flexibility to award additional bonuses in extra-ordinary events in addition to the performance bonus.

c) Shares, subscription rights, options and other remuneration related to shares or share price trends

The Company operates a share option program for all employees with the aim to provide a long-term incentive. For new grants, minimum exercise price will be set at fair market value at the date of grant. The options may be exercised after a certain time, subject to still being in the Company's employment. Grants to Management will be at the discretion of the Board. The vesting period is 4 years. In the Annual General Meeting held in 2011, it was resolved to authorize the Board to issue a maximum of 10,000,000 options over three years under the employee option program to employees (not only management), and that the maximum outstanding options shall not at any time exceed 7.5% of the registered number of shares in the Company.

d) Pension plans

Early retirement agreements have not been entered into. However, the Company may sign early retirement agreements in the future.

Management personnel will normally belong to the Company's collective pension plan which will provide pensions that are proportional to final salary levels.

e) Severance schemes

The CEO has a Severance Agreement which pays 18 months salary and benefits during the notice period if his employment is terminated. Other managers have Severance Agreements which cover the payment of 12 months salary and benefits during the notice period if his/her employment is terminated.

The severance scheme is structured to ensure that members of the executive management do not start working for a competitor shortly after leaving the Company.

The Company's CEO should ordinarily have an agreement that takes into account the Company's possible need to ask the CEO to leave immediately if this is considered to be in the company's best interest. Consequently, the severance scheme must be sufficiently attractive for the CEO to accept an agreement involving a reduction in protection against dismissal.

Agreements may be signed regarding severance pay for other members of corporate management to attend to the Company's needs at all times to ensure that the selection of managers is in commensuration with the Company's needs. Pursuant to the Working Environment Act, such agreements may not have a binding effect on executives other than the CEO.

Efforts shall be made to devise severance schemes that are acceptable both internally and externally. In addition to salary and other benefits during the term of notice, such schemes will limit severance pay to 12 months.

2. Executive management wages in subsidiaries of EMGS

Other companies in the Group are to follow the main principles of the Group's managerial salary policy as described in section 1. It is a goal to coordinate wage policy and the schemes used for variable benefits throughout the Group.

3. Review of the executive management remuneration policy that has been carried out in the financial year 2012

The remuneration policies set out in the declaration on determination of salary and other compensation to the CEO and other executive management for 2012 were followed in all respects for the year 2012. No member of the executive management received bonus above 40% of the annual Basic Salary.

4. Review of the effects for the Company and its shareholders of agreements on Remuneration entered into or amended in the financial year 2012

The Company entered into an agreement with the Chairman, Bjarte Bruheim, which was approved by the Extraordinary General Meeting on 27 November 2007. This agreement is deemed to have been beneficial for the Company. The agreement has not been amended in 2012. However, the annual general meeting held in 2012 resolved that 250,000 options should be granted to the Chairman in connection with a grant of options to the employees in the Company. This grant was proposed on the basis that the Chairman performs services for the Company beyond the work directly related to his directorship. Said 250,000 options have a strike price of NOK 19.30 and will expire on 14 February 2019.

Oslo 20 March 2013

Bjarte Bruheim

Bjarte H. Bruheim
for and on behalf of the Board of Directors of EMGS

Electromagnetic Geoservices Group

Consolidated income statement

Year ended 31 December

Amounts in USD 1 000	Note	2012	2011
Operating revenues			
Contract sales	6	**176 118**	162 904
Multi-client sales	6.16	**24 713**	9 510
Total operating revenues		**200 831**	**172 414**
Operating expenses			
Charter hire, fuel and crew expenses	7	**68 822**	67 105
Employee expenses	8	**55 076**	43 572
Depreciation and ordinary amortisation	16.17	**13 920**	13 019
Multi-client amortisation	16	**12 709**	3 675
Other operating expenses	9, 10	**21 080**	19 904
Total operating expenses		**171 607**	**147 275**
Operating profit/(loss)		**29 224**	25 139
Financial income and expenses			
Interest income	11	**220**	221
Interest expenses	11	**-5 377**	-6 516
Change in fair value of conversion rights	11	**0**	-1 353
Net foreign currency income/(loss)	11	**-6 125**	475
Net financial items		**-11 282**	**-7 173**
Income/(loss) before income tax		**17 942**	**17 966**
Income tax expense	12	**6 047**	7 813
Income/(loss) for the year		**11 895**	**10 153**
Basic income/(loss) per share (result for the year/shares) in USD	31	**0.06**	**0.06**
Diluted income/(loss) per share (EPS) in USD	31	**0.06**	**0.05**

Consolidated statement of comprehensive income

Income/(loss) for the year		**11 895**	**10 153**
Exchange differences on translation of foreign operations		**4 046**	-4 256
Total comprehensive income/(loss) for the year		**15 941**	**5 897**

Electromagnetic Geoservices Group

Consolidated statement of financial position

As at 31 December

Amounts in USD 1 000	Note	2012	2011
ASSETS			
Non-current assets			
Goodwill	5	**14 422**	14 422
Intangible assets	16	**19 003**	10 652
Property, plant and equipment	17	**32 233**	20 615
Assets under construction	17	**10 893**	14 275
Restricted cash	21	**-**	590
Total non-current assets		**76 551**	**60 554**
Current assets			
Spare parts, fuel, anchors and batteries	19	**12 874**	9 733
Trade receivables	20	**47 000**	27 761
Other receivables	18	**14 961**	6 207
Cash and cash equivalents	21	**39 259**	57 796
Restricted cash	21	**8 543**	16 553
Total current assets		**122 637**	**118 050**
Total assets		**199 188**	**178 604**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital, share premium and other paid in equity	14	**268 709**	265 027
Other reserves		**-383**	-4 428
Retained earnings		**-157 939**	-169 836
Total equity		**110 387**	**90 763**
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	22	**5 849**	5 051
Non-current tax liability		**351**	580
Provisions	25	**3 811**	-
Borrowings	23	**45 590**	43 022
Total non-current liabilities		**55 601**	48 653
Current liabilities			
Trade payables	24	**9 616**	14 276
Current tax liabilities	13	**2 383**	7 082
Other short term liabilities	26	**19 843**	16 552
Borrowings	23	**1 358**	1 278
Total current liabilities		**33 200**	39 188
Total liabilities		**88 801**	87 841
Total equity and liabilities		**199 188**	178 604

Electromagnetic Geoservices Group

Consolidated statement of cash flows

Year ended 31 December

Amounts in USD 1 000	Note	2012	2011
Net cash flow from operating activities:			
Income/(loss) before income tax		**17 942**	17 966
Adjustments for:			
Depreciation and ordinary amortisation	16, 17	**13 920**	13 019
Multi-client amortisation	16	**12 709**	3 675
Non-cash portion of pension expenses		**798**	-35
Cost of share-based payments		**2 305**	497
Change in trade receivables		**-19 239**	-7 121
Change in inventories		**-3 142**	-440
Change in trade payables		**-4 660**	1 525
Change in other working capital		**13 504**	-9 113
Taxes paid		**-21 594**	-6 137
Withholding tax expenses		**10 847**	4 459
Amortisation of interest		**5 347**	5 262
Net cash flow from operating activities		**28 737**	**23 557**
Investing activities:			
Purchases of property, plant and equipment		**-21 171**	-3 226
Purchases of intangible assets		**-263**	-6
Investment in multi-client library		**-21 362**	-2 741
Cash used in investing activities		**-42 796**	**-5 973**
Financial activities:			
Financial lease payments-principal and interest		**-1 159**	-2 099
Payment of bond		**-**	-20 400
Proceeds from bonds		**-**	43 721
Proceeds from issuance of ordinary shares	14	**1 377**	1 872
Payment of interest on bonds		**-4 696**	-4 222
Cash provided by financial activities		**-4 478**	**18 872**
Net change in cash		**-18 537**	**36 456**
Cash balance beginning of period		**57 796**	21 340
Cash balance end of period		**39 259**	57 796
Net change in cash		**-18 537**	**36 456**
Interest paid		**-4 999**	-4 568
Interest received		**220**	221

Electromagnetic Geoservices Group

Consolidated statement of changes in equity

Attributable to equity holders of the Company

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 2011		**182 381**	**-172**	**-179 988**	**2 222**
Currency translation differences		-	-4 256	-	**-4 256**
Income/(loss) for the year		-	-	10 153	**10 153**
Total comprehensive income		-	-4256	10 153	**5 897**
Proceeds from shares issued - private placement and options exercised	14	1 856	-	-	**1 856**
Proceeds from shares issued - purchase of subsidiary	14	19 198	-	-	**19 198**
Equity component of convertible loan	14	30 498	-	-	**30 498**
Share-based payment	14	497	-	-	**497**
Conversion of convertible loans	14	30 598	-	-	**30 598**
Balance at 31 December 2011		**265 027**	**-4 428**	**-169 836**	**90 763**
Currency translation differences		-	4 046	-	**4 046**
Income/(loss) for the year		-	-	11 895	**11 895**
Total comprehensive income		-	4046	11 895	**15 941**
Proceeds from shares issued - options exercised	14	1 377	-	-	**1 377**
Share-based payment	14	2 305	-	-	**2 305**
Balance at 31 December 2012		**268 709**	**-383**	**-157 939**	**110 387**

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, Mexico, Malaysia, Cyprus and the United Kingdom.

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 20 March 2013.

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) as adopted by the European Union (EU). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the periods presented would 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 have been prepared on a historical cost basis and are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Basis for consolidation
The consolidated financial statements incorporate the financial statements of EMGS and entities controlled by EMGS (subsidiaries). Control is achieved when 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.

2.3 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Non-controlling interests are measured at the proportionate share of the acquirees identifiable assets. Acquisition costs incurred are expensed and included in other operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether the assets or liabilities of the acquiree are assigned to those units.

2.4 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 functional currency of the Company is Norwegian Kroner (NOK).

The consolidated financial statements are presented in US Dollars (USD) which is 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.

(b) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate on 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 on the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates on the date when the fair value is determined.

(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 on 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 on the specific transaction date.

All resulting exchange differences are recognised in other comprehensive income.

2.5 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, regardless of when the payment is being made. 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. Vessel operational hours are the actual amount of time incurred/ expected to be incurred in the productive acquisition of the electromagnetic data. 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.

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 using 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 entitles 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 using 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.

2.6 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 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 - 8	years
Cluster **	5	years
Hardware equipment and furniture	3 - 5	years

* Machinery and equipment are mainly placed onboard the vessel. Parts of the equipment are underwater during operation and have a shorter useful life.

** A cluster consists of IT equipment comprising of 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).

2.7 Leases
The determination whether an arrangement is, or contains, a lease is based on the substance of the arrangement on inception date. The arrangement is assessed for 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 or assets, even if that right is not explicitly specified in an arrangement.

(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 asset 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.

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

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.

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 and method are reviewed at least every financial year end.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.

(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 (10-15 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, 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 (normally 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. Any 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 recognised revenue from the survey. Classification of a project into a rate category is based on the ratio of its remaining net carrying value to its remaining estimated revenues. 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 valued at the lower of cost or 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 at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition dependent on the financial assets nature and the purpose for the acquisition. The Groups financial assets include cash and short term deposits, trade and other receivables, and are classified as loan and receivables.

All financial assets are recognised initially at fair value plus transaction costs.

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. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. 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;

i) there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset, and

ii) 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 reorganization, 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.

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

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

(a) Financial liabilities at amortised cost
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.

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 Taxes

(a) Current income tax
Current income tax assets and liabilities for the current and prior periods are measured using 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 reporting date in the countries where the Group operates and generates taxable income.

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 on 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. The liability recognised in the balance sheet related to the defined benefit plan 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 OMF interest rate.

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 are 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 are given in Note 15.

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 on 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 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.

2.18 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.

2.19 Changes in accounting policy and disclosures
The accounting principles adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012:
· IFRS 7 Financial Instruments: Disclosures –Enhanced Derecognition Disclosure Requirements effective 1 July 2011

IFRS 7 Financial Instruments: Disclosures –Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

2.20 Future changes in accounting policies
Certain new standards, amendments and interpretations of existing standards that have been published and are mandatory for the Group's accounting periods beginning on 1 January 2013 or later periods, but which the Group has not adopted early, are as follows:

· *IFRS 7 New disclosures – Offsetting of Financial Assets and Financial Liabilities* – effective for annual periods beginning on or after 1 January 2013.
· *IFRS 10 Consolidated Financial Statements* - effective for annual periods beginning on or after 1 January 2014.
· *IFRS 11 Joint Arrangements* - effective for annual periods beginning on or after 1 January 2014.
· *IFRS 12 Disclosure of Interest in Other Entities* - effective for annual periods beginning on or after 1 January 2014.
· *IFRS 13 Fair value measurement* - effective for annual periods beginning on or after 1 January 2013.
· *IAS 27 Revised: Separate Financial Statements* - effective for annual periods beginning on or after 1 January 2014.
· *IAS 28 Revised: Investments in Associates and Joint Ventures* - effective for annual periods beginning on or after 1 January 2014.
· *IAS 1 Amendment: Presentation of Items of Other Comprehensive Income* - effective for annual periods beginning on or after 1 July 2012.
· *IAS 12 Amendment: Deferred tax – Recovery of underlying assets* - effective for annual periods beginning on or after 1 January 2013.
· *IAS 32 Amendment: Offsetting of Financial Assets and Financial Liabilities* - effective for annual periods beginning on or after 1 January 2014.

These standards, amendments and interpretations are not expected to have any material impact on the financial position of the Group.

· *IAS 19 Amendment: Employee Benefits* - effective for annual periods beginning on or after 1 July 2013.

After the amendments made in 2011, IAS 19 eliminates the option to defer the recognition of actuarial gains and losses, known as the 'corridor method'. Changes in estimates of post-employment benefit obligations are now to be presented in other comprehensive income (OCI) in the period they occur. Furthermore, the amendment sets out that the employee benefit costs are to be separated between profit and loss and other income and expenses. Expected returns on plan assets are to be calculated using the discount rate used to measure the pension obligation. The current service cost and the net interest cost are to be presented in profit and loss, while "remeasurements" such as changes in estimates are to be presented in other income and expenses in the statement of comprehensive income. Furthermore, the disclosure requirements related to defined benefit plans have been changed. The group has estimated net cumulative unrecognised actuarial gains as of 31 December 2012 of 3 237, which 2 331 will be recorded in equity and 906 as deferred tax.

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

Note 3 — Financial risk management objectives and policies

The Group's principal financial liabilities comprise trade and other payables, financial liabilities at amortised cost, 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 2012 or 2011.

The Group is exposed to 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 financial liabilities at amortised cost and derivative financial instruments.

The sensitivity analysis in the following sections relate to the position as at 31 December 2012 and 2011. 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 analysis 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.

The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risk. This is based on the financial assets and financial liabilities held at 31 December 2012 and 2011.

(i) 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 long-term debt obligations with floating interest rates. The Group's convertible bonds that were converted in 2011 had fixed interest rates.

With all other variables held constant, for every one-percentage point hypothetical increase in NIBOR, the Group's annual net interest expense on variable debt, including finance leases, will increase by approximately 217 at 31 December 2012.

(ii) 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 other currencies than the functional currency of each company. EMGS ASA changed its functional currency from USD to NOK in 2011, hence the foreign currency risks is primarily with respect to USD in EMGS ASA. Approximately 96% of the Group's sales are denominated in USD, whilst approximately 39% of costs are denominated in USD

in 2012. Foreign exchange risk arises from future commercial transactions, recognised as assets and liabilities.

The following table summarises the sensitivity to a reasonably possible change in the USD 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 is not material.

	Increase/ decrease in USD rate	Effect on income/(loss) before tax
2012	+20%	10 172
	-20%	-10 172
2011	+20%	8 545
	-20%	-8 545

(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). See Note 20 for aging analysis of trade receivables.

(i) 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 2 major customers amounted to a significant part of 2012 sales, these customers were large international oil companies, and considered creditworthy.

The requirement for an impairment charge 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. The majority of customers are solid large companies, EMGS feels confident in reaching the revenue forecast necessary for a stable liquidity.

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 2 years	2 to 5 years	> 5 years	Total
Year ended 31 December 2012						
Interest bearing loans and borrowings	-	-	44 803	-	-	**44 803**
Trade and other payables	-	31 842	-	351	-	**32 193**
Other financial liabilities	-	1 358	787	-	-	**2 145**
Year ended 31 December 2011						
Interest bearing loans and borrowings	-	-	-	40 996	-	**40 996**
Trade and other payables	-	37 910	-	580	-	**38 490**
Other financial liabilities	-	1 278	1 285	741	-	**3 304**

See Note 23 for interest bearing loans and borrowings.

(i) 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 2012 and 31 December 2011.

The Group monitors its capital structure on the basis of a total equity to total assets ratio. As of 31 December 2012 this ratio was 55% (2011:51%). It is the Group's policy that the said ratio shall be above 50% during its current growth phase.

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 2012 is 5 849 (2011: 5 051). Additional information is disclosed in Note 22.

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.

Acquisitions
The management is required to allocate the purchase price to the assets aquired and liabilities assumed based on their estimated fair values for acquired companies. The Group engaged independent valuation specialists to determine the purchase price allocation of OHM Surveys Holding AS in 2011.

Judgement in selecting valuation method, estimates and assumptions was required when allocating the purchase price.

The purchased intangible assets include charter hire agreements and goodwill. The management's estimate of fair value is based upon assumptions belived 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 the 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.

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.

4.2 Critical accounting judgment
In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Operating leases
The Group has entered into lease contracts on its vessels. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the vessels, that it retains all significant risks and rewards of ownership of these vessels and accounts for the contracts as operating leases.

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 2012 are 66 077 (2011: 73 481).

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 2012, the carrying amount of capitalised development costs is 1 488 (2011: 1 611).

Change in functional currency of EMGS ASA
Due to development in how the operations in the Group was organised, the transactions in EMGS was from 2011 mainly denominated in NOK while historically the revenues and other transactions in the Company were mainly denominated in USD. Based on an assessment of the economic environment EMGS operates as well as other factors to be considered, the functional currency of EMGS changed from USD to NOK as of 1 January 2011. The reporting currency for the Group continued to be USD.

Note 5 — Business combination

Acquisition of Ohm Surveys Holding AS
On 31 August 2011, EMGS entered into an agreement to acquire 100% of the shares in OHM Surveys Holding AS (OHM), a marine electromagnetic acquisition company.

The acquisition was completed 9 September 2011 for a purchase price of 19 198 .

Purchase price allocation:

Amounts in USD 1 000	Recognised values at acquisition	Adjustment of fair value	Carrying amount prior to acquisition
Intangible assets excluding goodwill	**2 321**	**1 990**	331
Fixed assets	**65**	**-1 894**	1 959
Cash and cash equivalents	**1 777**	**-**	1 777
Other assets	**3 617**	**-**	3 617
Other liabilities	**-3 004**	**-140**	-2 864
Net identifiable assets and liabilties	**4 776**	**-44**	4 820
Goodwill upon acquisition	**14 422**		
Total	**19 198**		

The fair value of intangible assets excluding goodwill at the time of acquisition was 2 321. This is the calculated fair value of the lease agreements for the two vessels EM Leader and EM Express with Euro Trans Skips AS. The lease agreements was a part of the acquistion of OHM. The vessels will, at no standby cost, be ready to mobilise on 3-, 6- or 12-month charters over the course of the next 42 months (EM Leader) and 30 months (EM Express). These intangible assets are depreciated over the charter periods (42 and 30 months).

The goodwill that arises in the purchase price allocation is attributed to expected synergies, competency, capacity and other benefits from combining the activities of OHM with those of the Group.

Acquisition costs incurred (423) are expensed and included in other operating expenses.
From the date of acquisition, OHM contributed 384 of revenues and had a net loss before tax of 696.

Pro forma figures have not been drawn up for the period from 1 January 2011 to the date of acquisition, 9 September 2011, because the figures are considered insignificant in the context of the consolidated accounts.

Note 6 — Segment

For management purposes, the Group is organised into one reportable segment. The Group offers EM services, and the sale contracts and costs are incurred worldwide.

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	2012	2011
Europe, Middle East and Africa	**26 905**	49 921
North and South America	**143 716**	117 900
Asia and the Pacific Ocean	**30 210**	4 593
Total	**200 831**	**172 414**

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 in 2012 (one single external customers in 2011). Total revenues from these customers were in 2012 79 616, 64 186 and 24 980 (for 2011: 106 392).

Note 7 — Charter hire, fuel and crew expenses

Amounts in USD 1 000	2012	2011
Charter hire and crew expenses	**44 957**	32 693
Fuel	**12 265**	8 968
Agent fee	**5 046**	8 754
Witholding tax cost	**4 056**	2 578
Capitalization of multi-client costs	**-21 269**	-2 297
Patent disputes	**64**	366
Other external services	**23 703**	16 044
Total charter hire, fuel and crew expenses	**68 822**	**67 105**

Note 8 — Employee expense

Amounts in USD 1 000	2012	2011
Employee expense		
Salaries	**40 871**	33 637
Social security tax	**5 029**	4 351
Pension costs (Note 22)	**2 253**	1 542
Other payments	**4 633**	3 563
Cost of share based payment (Note 15)	**2 290**	479
Total employee expense	**55 076**	**43 572**
Compensation of key management personnel of the Group		
Salary	**1 539**	1 523
Bonus paid in the year	**402**	643
Share options	**331**	123
Pension benefits	**95**	90
Other benefits	**643**	572
Total management remuneration	**3 010**	**2 951**

See Note 6 in the Financial Statements of EMGS for Executive Management and Board of Directors remuneration.

Note 9 — Other operating expenses

Amounts in USD 1 000	2012	2011
Rental and housing expenses	**3 869**	3 636
Consumables and maintenance	**2 021**	2 116
Consultancy fees *	**4 683**	6 139
Travel expenses	**3 700**	2 882
Insurance	**1 459**	774
Loss on trade receivable	**-**	310
Marketing	**1 061**	1 074
Other operating expenses	**4 287**	2 973
Total other operating expenses	**21 080**	**19 904**
*** Fees to auditor included in consultancy fees:**		
Statutory audit services	**237**	242
Further assurance services	**65**	80
Tax advisory services	**107**	267
Other non-audit services	**12**	16
Total fees to auditor	**421**	**604**

Note 10 — Research and development costs

Research and development costs consist of 4 105 (2011: 4 149) charged to the income statement as part of operating expenses and 777 (2011: 20) of amortisation of previously capitalised development costs.

Note 11 — Financial items

Amounts in USD 1 000	2012	2011
Financial income:		
Interest income on short term bank deposits	**220**	221
Foreign exchange gains related to loans and receivables	**23 647**	7 424
Foreign exchange gains related to liabilities at amortised cost	**-**	5 117
Total financial income	**23 867**	**12 762**
Financial expenses:		
Interest expense on financial leases and bank borrowings	**216**	433
Interest expense on bond	**4 811**	5 699
Change in fair value of conversion rights	**-**	1 353
Foreign exchange losses related to loans and receivables	**25 315**	12 066
Foreign exchange losses related to liabilities at amortised cost	**4 457**	-
Other financial expenses	**350**	384
Total financial costs	**35 149**	**19 935**
Net financial items	**-11 282**	**-7 173**

The exchange rate effects are mainly related to accounts receivables and trade payables in USD in EMGS ASA, and accounts receivables and trade payables in NOK or other currencies than USD in other group companies.

Note 12 — Income tax expense

Amounts in USD 1 000	2012	2011
Current tax	**6 047**	7 813
Total income tax expense	**6 047**	**7 813**

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	2012	2011
Income before tax	**17 942**	17 966
Tax at the domestic rate of 28%	**5 024**	5 030
Non-deductible expenses and other	**2 380**	1 046
Change in deferred tax asset, not recognised	**-7 404**	-6 076
Foreign income taxes	**6 047**	7 813
Tax charge	**6 047**	**7 813**

Note 13 — Deferred tax

Amounts in USD 1 000	2012	2011
Deferred taxes detailed		
Property, plant and equipment	**-3 927**	-5 947
Pension obligations	**-1 638**	-1 414
Accrued foreign income taxes and other accruals	**1 770**	-207
Loss carried forward	**-62 282**	-65 912
Total deferred tax (asset)/liability	**-66 077**	**-73 481**
Non-recognised deferred tax assets	**66 077**	**73 481**
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 2012 and 2011.

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, for which deferred tax liability has not been recognised is immaterial both for 2012 and 2011.

The current tax liabilities of 2 383 mainly consist of accruals for taxes in Brazil (2 115).

Note 14 — 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 2011	**153 824 261**	**5 340**	**168 970**	**8 071**	**182 381**
Equity component of convertible loan	-	-	30 661	-163	**30 498**
Proceeds from shares issued - purchase of subsidiary	8 305 368	381	18 817	-	**19 198**
Proceeds from options exercised	1 720 200	75	1 781	-	**1 856**
Share-based payment	-	-	-	497	**497**
Conversion of convertible loans	33 591 733	1 523	29 075	-	**30 598**
At 31 December 2011	**197 441 562**	**7 319**	**249 303**	**8 405**	**265 027**
At 1 January 2012	**197 441 562**	**7 319**	**249 303**	**8 405**	**265 027**
Proceeds from options exercised	1 438 493	63	1 314	-	**1 377**
Share-based payment	-	-	-	2 305	**2 305**
At 31 December 2012	**198 880 055**	**7 382**	**250 617**	**10 710**	**268 709**

The total authorised number of ordinary shares is 225 724 660 (2011: 250 004 507) with a par value of USD 0.04 (NOK 0.25) per share. All issued shares are denominated in NOK and fully paid.

Largest shareholders as of 31 December 2012 were as follows:

	Number of ordinary shares	Percentage
Shareholders		
Skagen Global	10 124 112	5.09 %
Odin Norge	7 838 224	3.94 %
Odin Offshore	7 698 823	3.87 %
The Northern Trust Co.	7 364 389	3.70 %
Skagen Vekst	5 029 207	2.53 %
Skagen Global II	3 878 333	1.95 %
Verdipapirfondet DNB SMB	3 675 000	1.85 %
JP Morgan Chase Bank	3 255 865	1.64 %
Stenshagen Invest AS	3 000 000	1.51 %
Spesialf. KLP Alfa Global Energi	2 960 000	1.49 %
State Street Bank and Trust Co.	2 657 255	1.34 %
Verdipapirfondet DNB Norge (IV)	2 570 552	1.29 %
Clearstream Banking S.A.	2 486 993	1.25 %
Sundt AS	2 400 000	1.21 %
Statoil Pensjon	2 307 327	1.16 %
VPF Nordea Kapital	2 241 821	1.13 %
Sportmagasinet AS	2 206 588	1.11 %
Bjarte Bruheim	2 205 088	1.11 %
JP Morgan Clearing Corp.	2 106 163	1.06 %
Verdipapirfondet DNB Navigator	2 030 701	1.02 %
Other	120 843 614	60.76 %
Total	**198 880 055**	**100.00 %**

Note 15 — 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	2012	2011
Expense arising from share based options	**2 290**	497

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 2012 and 2011:

	2012	2011
Expected volatility	**60 %**	60 %
Risk free interest rate	**1.87 %**	2.19 %
Expected life of options (years)	**4**	4
Weighted average share price (USD)	**3.43**	1.76

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:

	2012		2011	
	Average exercise price in USD per share	Options	Average exercise price in USD per share	Options
At 1 January	**1.00**	**5 107 000**	**1.05**	**7 196 200**
Granted	**3.04**	**5 425 000**	1.76	240 000
Forfeited	**-**	**-**	-	-
Exercised	**0.98**	**1 438 493**	1.03	1 720 200
Terminated	**2.06**	**764 000**	0.94	446 000
Lapsed	**-**	**-**	1.83	163 000
Cancelled	**-**	**-**	-	-
At 31 December	**2.45**	**8 329 507**	**1.00**	**5 107 000**
Exercisable at 31 December	**1.85**	**3 074 007**	**1.03**	**2 556 000**

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

2011

	In USD per share	Options
2012	-	**-**
2013	2.25 and 4.34	**47 500**
2014	0.96	**1 131 500**
2015	3.34 5 and 6.67	**60 000**
2016	0.71	**1 316 000**
2017	0.92 and 0.96	**2 352 000**
2018	1.73 and 1.95	**200 000**
		5 107 000

2012

	In USD per share	Options
2013	2.42 and 4.67	**46 500**
2014	1.04	**537 000**
2015	5.39, 5 and 7.19	**40 000**
2016	0.77	**827 000**
2017	1.04	**1 600 000**
2018	2.10 and 2.48	**709 007**
2019	2.80 and 3.25	**4 570 000**
		8 329 507

The weighted average remaining contractual life for the share options outstanding at 31 December 2012 is 5.11 years (2011: 4.39 years).

The weighted average fair value of options granted during the year was USD 1.10 (2011: 0.77).

Note 16 — Intangible assets and goodwill

Amounts in USD 1 000	Software and licenses	Lease agreements EM Leader and EM Express	Patents	Multi-client library	Total	Goodwill
At 1 January 2011						
Accumulated cost	7 878	-	1 673	26 868	**36 419**	-
Accumulated amortisation	-6 163	-	-1 457	-20 972	**-28 592**	-
Net carrying value	**1 715**	**-**	**216**	**5 896**	**7 827**	-
Year ended 31 December 2011						
Opening carrying value	1 715	-	216	5 896	**7 827**	-
Additions	163	2 321	1 905	2 741	**7 130**	14 422
Transferred from assets under construction to intangible assets	981	-	-	-	**981**	-
Amortisation charge	-922	-251	-273	-3 675	**-5 121**	-
Translation differences	-157	-	-111	103	**-165**	-
Closing carrying value	**1 780**	**2 070**	**1 737**	**5 065**	**10 652**	**14 422**
At 31 December 2011						
Accumulated cost	9 022	2 321	3 578	29 609	**44 530**	14 422
Translation differences accumulated cost	-316	-	-172	-626	**-1 114**	-
Accumulated amortisation	-7 085	-251	-1 730	-24 647	**-33 713**	-
Translation differences accumulated amortisation	159	-	61	729	**949**	-
Net carrying value	**1 780**	**2 070**	**1 737**	**5 065**	**10 652**	**14 422**
Year ended 31 December 2012						
Opening carrying value	1 780	2 070	1 737	5 065	**10 652**	14 422
Additions	109	-	-	22 034	**22 143**	-
Transferred from assets under construction to intangible assets	981	-	-	-	**981**	-
Amortisation charge	-944	-815	-185	-12 709	**-14 653**	-
Translation differences	-6	-	150	-264	**-120**	-
Closing carrying value	**1 920**	**1 255**	**1 702**	**14 126**	**19 003**	14 422
At 31 December 2012						
Accumulated cost	10 112	2 321	3 578	51 643	**67 654**	14 422
Translation differences accumulated cost	307	-	89	1 594	**1 990**	-
Accumulated amortisation	-8 029	-1 066	-1 915	-37 356	**-48 366**	-
Translation differences accumulated amortisation	-470	-	-50	-1 755	**-2 275**	-
Net carrying value	**1 920**	**1 255**	**1 702**	**14 126**	**19 003**	**14 422**

The amortisation expense on multi-client library only includes amortisation of costs directly linked to production, such as acquisition costs, processing costs, and direct project costs. No impairment has been recorded in 2012 or 2011. Multi-client revenue recognised in 2012 amounted to 24 713 (2011: 9 510).

The patents are related to electromagnetic method, the Group's proprietary process which allows for the direct detection of hydrocarbons under the sea bed.

See Note 5 for further description of lease agreements EM Leader and EM Express.

	Estimated useful lives
Patents	10-15 years
Software and licenses	3 years
Lease agreements	2.5-3.5 years

Impairment test of goodwill

The Group performed its annual impairment test as at 31 December 2012. Goodwill has not been allocated since there is only one CGU. The recoverable amount has been determined based on the fair value of the equity for the Group, which is based on the share price at 31 December 2012 of 482 337 . The book value of equity is 110 387. No impairment charge has been made.

Note 17 — Property, plant and equipment and assets under construction

Amounts in USD 1 000	Machinery and equipment	Hardware and furniture	Cluster	Total	Assets under construction
At 1 January 2011					
Accumulated cost	72 269	14 357	9 926	**96 552**	9 085
Accumulated depreciation	-55 294	-11 965	-6 189	**-73 448**	-
Net carrying value	**16 975**	**2 392**	**3 737**	**23 104**	**9 085**
Year ended 31 December 2011					
Opening carrying value	16 975	2 392	3 737	**23 104**	9 085
Additions	4 285	2 056	25	**6 366**	8 851
Transfer from asset under construction to property, plant and equipment	2 680	-	-	**2 680**	-3 661
Depreciation charge	-8 389	-1 610	-1 574	**-11 573**	-
Translation differences	221	-192	9	**38**	-
Closing carrying value	**15 772**	**2 646**	**2 197**	**20 615**	**14 275**
At 31 December 2011					
Accumulated cost	79 234	16 413	9 951	**105 598**	14 275
Translation differences accumulated cost	-1 563	-822	-227	**-2 612**	-
Accumulated depreciation	-63 683	-13 575	-7 763	**-85 021**	-
Translation differences accumulated depreciaton	1 784	630	236	**2 650**	-
Net carrying value	**15 772**	**2 646**	**2 197**	**20 615**	**14 275**
Year ended 31 December 2012					
Opening carrying value	15 772	2 646	2 197	**20 615**	14 275
Additions	889	1 088	219	**2 196**	18 364
Accumulated costs on disposals	-116	-	-	**-116**	-
Transfer from asset under construction to property, plant and equipment	19 038	65	1 371	**20 474**	-21 455
Depreciation charge	-8 866	-1 585	-1 525	**-11 976**	-
Accumulated depreciation on disposals	116	-	-	**116**	-
Translation differences	614	303	7	**924**	-291
Closing carrying value	**27 447**	**2 517**	**2 269**	**32 233**	**10 893**
At 31 December 2012					
Accumulated cost	99 045	17 566	11 541	**128 152**	11 184
Translation differences accumulated cost	4 442	511	518	**5 471**	-291
Accumulated depreciation	-72 433	-15 160	-9 288	**-96 881**	-
Translation differences accumulated depreciaton	-3 607	-400	-502	**-4 509**	-
Net carrying value	**27 447**	**2 517**	**2 269**	**32 233**	**10 893**

Finance leasing included in property, plant and equipment:

2011				
Cost of capitalised finance leases	4 846	8 235	9 950	**23 031**
Accumulated depreciation	-2 907	-7 342	-7 677	**-17 926**
Net carrying value	**1 939**	**893**	**2 273**	**5 105**
2012				
Cost of capitalised finance leases	5 641	46	675	**6 362**
Accumulated depreciation	-4 513	-15	-113	**-4 641**
Net carrying value	**1 128**	**31**	**562**	**1 721**

The amount of property, plant and equipment pledged as security for liabilities has a net carrying value of 0 as of 31 December 2012 (2011: 20 615).

	Estimated useful lives
Machinery and equipment	3-8 years
Hardware and furniture	3-5 years
Cluster	5 years

Note 18 — Other receivables

Amounts in USD 1 000	2012	2011
Prepayments	**4 832**	3 113
Receivables VAT	**8 161**	1 291
Deferred mobilisation expenses	**1 669**	1 659
Other receivables	**299**	143
Total other receivables	**14 961**	**6 207**

Note 19 — Spare parts, fuel, anchors and batteries

Amounts in USD 1 000	2012	2011
Equipment components and parts, at cost	**7 276**	6 583
Anchors and batteries, at cost	**2 562**	1 577
Fuel, at cost	**3 036**	1 573
Total spare parts, fuel, anchors and batteries	**12 874**	**9 733**

Inventory items expensed during 2012 amounted to 14 530 (2011: 10 839) and are included as components of operating expenses.

Note 20 — Trade receivables

Amounts in USD 1 000	2012	2011
Accounts receivable	**25 185**	2 817
Accrued revenues	**21 815**	24 944
Total trade receivables	**47 000**	**27 761**

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 2012 EMGS did not find it necessary to make any provision for doubtful trade receivables (2011: 0).

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
2012	**25 185**	**18 278**	**6 114**	**-**	**-**	**-**	**793**
2011	2 817	1 896	-	128	-	-	793

Note 21 — Cash and cash equivalents

Amounts in USD 1 000	2012	2011
Cash	**39 259**	57 796
Restricted cash current	**8 543**	16 553
Restricted cash non-current	**-**	590
Total cash and cash equivalents	**47 802**	**74 939**

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.

Note 22 — Employee benefit obligations

The Company operates a defined benefit plan. The number of employees included as of year end is 146 in 2012 and 150 in 2011. The plan only includes employees employed in Norway.

Amounts in USD 1 000	2012	2011
Balance sheet obligations for:		
Pension obligations	**5 849**	5 051
Income statement charge for:		
Pension obligations	**2 253**	1 542

Pension benefit obligation:

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

Amounts in USD 1 000	2012	2011
Defined benefit obligation	**7 819**	8 335
Fair value of plan assets	**-5 124**	-3 738
	2 695	**4 598**
Unrecognised actuarial gain (loss)	**3 154**	454
Liability in the balance sheet	**5 849**	**5 051**

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

Amounts in USD 1 000	2012	2011
Beginning of the year	**8 335**	5 900
Exchange differences	**254**	-103
Current service cost	**1 915**	1 364
Interest cost	**208**	231
Actuarial losses/(gains)	**-2 940**	933
Social security tax	**47**	11
End of the year	**7 819**	**8 335**

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

Amounts in USD 1 000	2012	2011
Beginning of the year	**3 738**	3 042
Expected return on plan assets	**190**	205
Actuarial (losses)/gains	**-706**	-609
Exchange differences	**273**	-175
Employer contributions	**1 630**	1 276
End of year	**5 124**	**3 738**

The amounts recognised in the income statement are as follows:

Amounts in USD 1 000	2012	2011
Current service cost	1 915	1 364
Interest cost	208	231
Expected return on plan assets	-190	-205
Amortisation of actuarial (gain)/loss	0	-82
Social security tax	278	201
Administration fee	41	33
Net benefit expense	**2 253**	**1 542**

The principal actuarial assumptions used are as follows:

	2012	2011
Discount rate*	3.90 %	2.60 %
Expected rate of return on plan assets**	4.00 %	4.10 %
Expected future salary increases	3.50 %	3.50 %
Expected rate of pension increases	3.25 %	3.25 %
Expected rate of regulation of pensions under payment	0.20 %	0.10 %
Social security tax - rate	14.10 %	14.10 %

* The Group has assessed that the OMF-rate on high quality corporate bonds can be used as discount rate in accordance with IAS 19 because the OMF-market represent a deep market on the relevant terms.

** 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 2011 was 3.60%.

The change in actuarial assumptions in 2012 is in accordance with guidance published by the Norwegian Accounting Standards Board in January 2013.

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:

	2012	2011
Shares	9.20 %	10.40 %
Bonds and money market	33.90 %	36.90 %
Hold to maturity bonds	36.80 %	33.40 %
Real estate	18.30 %	18.00 %
Other	1.80 %	1.30 %
Total	**100.00 %**	**100.00 %**

Expected contributions to the defined benefit plan for the year ending 31 December 2013 are 1 764.

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

Amounts in USD 1 000	2012	2011	2010	2009	2008
As at 31 December					
Defined benefit obligation	**7 819**	8 335	5 900	5 352	9 677
Plan assets	**5 124**	3 738	3 042	2 637	2 605
Deficit/(surplus)	**2 695**	**4 598**	**2 858**	**2 714**	**7 072**
Experience adjustments on plan liabilities	**-466**	-466	-1 507	-3 374	-434
Experience adjustments gains on plan assets	**734**	616	1 416	-20	1 469

Defined contribution plan
Employees not eligible for coverage under the defined benefit plan in Norway are eligible to participate in pension plans in accordance with local industrial, tax and social regulations. All of these plans are considered defined contribution plans.

Note 23 — Borrowings

Amounts in USD 1 000	Interest rate	Maturity	2012	2011
Non-current				
NOK 250 000 000 bond	3 month NIBOR + 7.00%	26 May 2014	**44 803**	40 996
Finance lease liabilities	3 month NIBOR + 3.50% and 7.6%	2-4 years	**787**	2 026
Total			**45 590**	**43 022**
Current				
Finance lease liabilities	3 month NIBOR + 3.50% and 7.6%	Up to 1 year	**1 358**	1 278
Total			**1 358**	**1 278**
Total borrowings			**46 948**	**44 300**

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 250 000 000 bond
On 26 May 2011, EMGS secured a NOK 250 million bond bearing an interest at 3 months NIBOR + 7.00% p.a.

The bond is unsecured.

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	2012	2011
6 months or less	**46 948**	44 300
6-12 months	**-**	-
1-5 years	**-**	-
Over 5 years	**-**	-
Total	**46 948**	44 300

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	2012	2011
Between 1 and 3 years	**45 443**	1 873
Between 4 and 5 years	**147**	41 149
Over 5 years	**-**	-
Total	**45 590**	43 022

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

Amounts in USD 1 000	Carrying amounts		Fair values	
	2012	2011	2012	2011
NOK 250 000 000 bond	**44 803**	40 996	**44 803**	40 996
Leasing liabilities	**787**	2 026	**787**	2 026

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	2012	2011
USD denominated	**-**	-
NOK denominated	**46 948**	44 300
Total	**46 948**	44 300

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

	2012		2011	
	NOK	USD	NOK	USD
Leasing liabilities	**7.80 %**	**-**	8.41 %	-
NOK 250 000 000 bond	**11.53 %**	**-**	12.38 %	-

Note 24 — 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 9 616 (2011: 14 276).

Note 25 — Provisions

The Group recognises a provision for prepayments from two customers in a joint industry project. EMGS and the two customers have desired to collaborate on the development, construction, and testing of an advanced marine electromagnetic acquisition system. After the commercial launch date, the two customers will have a beneficial period with decreasing benefits over four years. The provision will be recorded as revenues during the beneficial period.

The Group has recognised 3 811 as provision per 31 December 2012 (2011: 0).

Note 26 — Other short term liabilities

Amounts in USD 1 000	2012	2011
Accrued expenses	**5 909**	8 405
Holiday pay	**3 264**	2 415
Social security taxes and other public duties	**8 839**	2 969
Other short term liabilities	**1 831**	2 761
Total other short term liabilities	**19 843**	**16 552**

Accrued expenses are generally on 30 days payment terms.

Note 27 — Finance lease obligations

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

Amounts in USD 1 000	2012	2011
Finance lease liabilities – minimum lease payments:		
No later than 1 year	**1 480**	1 487
After 1 year and no more than 5 years	**852**	2 201
After more than 5 years	**-**	-
Total minimum lease payments	**2 332**	**3 688**
Future finance charges on finance leases	**-187**	-384
Present value of finance lease liabilities	**2 145**	**3 304**
The present value of finance lease liabilities is as follows:		
No later than 1 year	**1 358**	1 280
After 1 year and no more than 5 years	**787**	2 024
After more than 5 years	**-**	-
Total present value of finance lease liabilities	**2 145**	**3 304**
Contract terms regarding property rights at expiration of the contract:		
The ownership will be negotiated at the end of the leasing period.		

Note 28 — 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	2012	2011
Office premises rental guarantees	**441**	590
Guarantees on client contracts	**16 661**	15 634
Total guarantees	**17 102**	**16 224**

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

Note 29 — 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	2012	2011
No later than 1 year	**26 524**	28 811
After 1 year and no more than 5 years	**21 856**	27 540
After more than 5 years	**3 878**	270
Total operating lease commitments	**52 258**	**56 621**

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	2012	2011
Charter hire	**38 754**	27 770
Office premises	**2 835**	2 504
Total	**41 589**	**30 274**

Note 30 — Legal claim

EMGS Servicos Geologicos Electromagneticos do Brasil Ltda is party to a collection lawsuit which was submitted against it in May 2012 by a former contractual partner. The claim of around 900 is contested by EMGS Servicos Geologicos Electromagneticos do Brasil Ltda. The case is in an early phase and the Group cannot at the moment indicate when it will be decided.

No accruals are made for legal proceedings as of 31 December 2012.

Note 31 — 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	2012	2011
Income/(loss) attributable to equity holders of the Company	**11 895**	10 153
Basic earnings per share	**0.06**	**0.06**
Diluted earnings per share	**0.06**	**0.05**
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands)	**198 317**	182 222
Effect of dilutive potential shares:		
Share options	**833**	2 548
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands)	**199 150**	184 770

The Company has one category of dilutive potential ordinary shares; share options.

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. 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 24.5% of the shares in BKCCA. The agreement was renewed in 2012, and BKCAA will receive 5% commission on future contracts with Pemex obtained by the Company.

The following transactions were carried out with related parties:

Amounts in USD 1 000	2012	2011
Purchases of goods and services		
BKCCA	**4 764**	7 447

Year end balances arising from purchases of goods:

Amounts in USD 1 000	2012	2011
Payables to related parties:		
BKCCA	**90**	2 621

Note 33 — Investment in subsidiaries

Company	Share ownership/ voting rights 2012	Share ownership/ voting rights 2011	Equity 31 Dec 2012	Equity 31 Dec 2011	Location
EMGS Americas 1 AS	100%	100%	-2 16	-467	Trondheim, Norway
EMGS Americas 2 AS	100%	100%	14	15	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100%	100%	23	44	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	100%	100%	5 720	3 091	Rio de Janeiro, Brasil
EMGS Americas Inc	100%	100%	-1 699	-1 975	Delaware, USA
EMGS International B.V.	100%	100%	-83	-60	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	1%	1%	-738	75	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100%	100%	251	36	Kuala Lumpur, Malaysia
Global EMGS Nigeria Ltd	35%	35%	-278	-251	Lagos, Nigeria
EMGS Australia Pty Ltd	100%	100%	86	83	Perth, Australia
EMGS Global AS	100%	100%	464	560	Trondheim, Norway
EMGS Sea Bed Logging Mexico S.A. de C.V.	100%	100%	7 655	16 328	Col. Del Valle, Mexico
EMGS Shipping Mexico S. de R.L. de C.V.	49%	49%	-426	-448	Col. Del Valle, Mexico
emgs Services Mexico S.A. de C.V.	99%	99%	-80	-12	Col. Del Valle, Mexico
EMGS Labuan Ltd	100%	100%	487	682	Labuan, Malaysia
EMGS Geophysical Limited	100%	100%	-	-	Nicosia, Cyprus
EMGS Global Services (Cyprus) Limited	100%	100%	-	-	Nicosia, Cyprus
EMGS MCL Limited	100%	100%	-	-	Nicosia, Cyprus
EMGS Surveys AS	100%	100%	13 884	13 847	Trondheim, Norway
Ohm Ltd	100%	100%	2 434	1 819	Aberdeen, Great Britain
Ohm Surveys SDN BHD	100%	100%	163	153	Kuala Lumpur, Malaysia
EM Multi-client AS	100%	-	5	-	Trondheim, Norway

The Group consolidates Electromagnetic Geoservices Malaysia Sdn Bhd, Global emgs Nigeria Ltd and emgs Shipping Mexico S. de R.L. de C.V. at 100 % as the Company has full control in these companies. Side agreements shows that EMGS has all the rights and obligations of 100 % ownership.

Electromagnetic Geoservices ASA

Income statement

Year ended 31 December

Amounts in NOK 1 000	Note	2012	2011
Operating revenues			
Contract sales	1, 11	**845 866**	714 718
Multi-client sales	1, 11	**135 475**	47 931
Total operating revenues		**981 340**	**762 649**
Operating expenses			
Charter hire, fuel and crew expenses	4	**349 005**	337 916
Employee expenses	5, 6	**283 127**	227 684
Depreciation and ordinary amortisation	7	**77 255**	72 375
Multi-client amortisation	7	**74 375**	20 506
Other operating expenses		**130 763**	116 817
Total operating expenses		**914 525**	**775 298**
Operating income		**66 816**	**-12 649**
Financial income and expenses			
Financial income	16	**137 234**	51 541
Financial expenses	16	**93 205**	73 055
Net financial items		**44 029**	**-21 514**
Income (loss) before tax		**110 845**	**-34 163**
Income tax expenses	8	**458**	175
Net income (loss) for the year		**110 387**	**-34 338**
For information:			
Dividend		**-**	-

Electromagnetic Geoservices ASA

Balance sheet

As at 31 December

Amounts in NOK 1 000	Note	2012	2011
Non-current assets			
Intangible assets	7, 9	**75 350**	54 603
Property, plant and equipment	7, 9	**177 681**	122 743
Assets under construction		**58 943**	84 785
Investments in subsidiaries	10	**118 137**	117 566
Restricted cash		**-**	3 538
Total non-current assets		**430 111**	**383 235**
Current assets			
Spareparts, fuel, anchors and batteries	3	**66 643**	48 442
Trade receivables	9, 11, 12	**188 411**	34 534
Receivables group companies	12	**98 914**	105 632
Other receivables		**19 846**	34 019
Cash and cash equivalents	13	**161 113**	197 887
Restricted cash	13	**47 581**	99 197
Total current assets		**582 508**	**519 710**
Total assets		**1 012 619**	**902 945**

Electromagnetic Geoservices ASA

Balance sheet

As at 31 December

Amounts in NOK 1 000	Note	2012	2011
Equity			
Paid-in capital			
Share capital	14,15	**49 720**	49 360
Share premium	14,15	**882 031**	874 538
Other paid-in capital	14,15	**63 583**	50 383
Total paid-in capital		**995 334**	**974 281**
Retained earnings			
Other equity (uncovered loss)	15	**-422 020**	-532 409
Total retained earnings		**-422 020**	**-532 409**
Total equity		**573 314**	**441 872**
Liabilities			
Non-current liabilities			
Employee benefit obligations	5	**32 558**	30 267
Provisions	18	**21 214**	-
Borrowings	7,17	**253 771**	257 808
Total non-current liabilities		**307 543**	**288 075**
Current liabilities			
Trade payable		**46 891**	80 774
Current tax liability	8	**4 155**	4 697
Public taxes and duties payable		**26 330**	19 637
Other current liabilities		**46 826**	60 220
Borrowings		**7 561**	7 669
Total current liabilities		**131 762**	**172 997**
Total liabilities		**439 305**	**461 072**
Total equity and liabilities		**1 012 619**	**902 945**

Electromagnetic Geoservices ASA

Cash flow statement

Year ended 31 December

Amounts in NOK 1 000	2012	2011
A) Cash flow from operating activities		
Funds sourced from operations *)	**303 110**	91 196
Changes in inventories, accounts receivable and accounts payable	**-205 960**	48 382
Changes in other accrual items	**36 612**	-20 321
Net cash flow from operating activities	**133 762**	**119 256**
B) Cash flow from investing activities		
Purchase of property, plant and equipment	**-201 473**	-105 238
Investment in subsidiaries	**-30**	-
Net cash flow from investing activities	**-201 503**	**-105 238**
C) Cash flow from financial activities		
Proceeds from debt raised (long- and short term)	**-**	4 015
Reduction of long term debt	**-**	-116 907
Proceeds from equity paid-in	**7 853**	10 606
Proceeds from bond offering	**-**	241 424
Payment of interest on bonds and financial leases	**-32 039**	-35 052
Net cash flow from financial activities	**-24 186**	**104 086**
A+B+C) Net change in cash and cash equivalents	**-91 928**	118 105
Cash and cash equivalents at 01.01	**300 622**	182 517
Cash and cash equivalents at 31.12	**208 694**	**300 622**
Calculation of cash and cash equivalents		
Cash and cash equivalents	**161 948**	197 887
Restricted cash	**46 746**	102 735
Cash and cash equivalents at 31.12	**208 694**	**300 622**
***) Calculation of funds sourced from operations**		
Net profit (loss) before income taxes	**110 845**	-34 163
Depreciation and amortisation	**151 629**	92 881
Income tax expense	**-458**	-175
Option cost	**13 200**	2 780
Amortisation of interest	**27 894**	29 872
Funds sourced from operations	**303 110**	**91 196**

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.

Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition costs incurred are expensed and included in other operating expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether the assets or liabilities of the acquire are assigned to those units.

Revenue recognition

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. Vessel operational hours are the actual amount of time incurred/expected to be incurred in the productive acquisition of the electromagnetic data. 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.

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

b) Sales of multi-client library data
Pre-funding agreements
Before an EM survey is completed, the Company secures funding from a group of customers. The advantages for pre-funding customers are generally the possibility to influence the project specifications, early access to acquired data, and discounted prices. The Company recognises pre-funded revenue using 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 EMGS which entitles 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.

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

Subsidiaries 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 — Operating revenues

Amounts in NOK 1 000	2012	2011
Geographical distribution		
Europe, Middle East and Africa	**133 946**	266 813
North and South America	**684 940**	470 223
Asia and Pacific Ocean	**162 454**	25 613
Total	**981 340**	**762 649**

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

Note 2 — Business combination

On 31 August 2011, EMGS entered into an agreement to acquire OHM Surveys Holding AS (OHM), a marine electromagnetic acquisition company for a purchase price of 104 648.

Amounts in NOK 1 000	Recognised values at aqcuisition	Adjustment of fair value	Carrying amount prior to acquisition
Intangible assets excluding goodwill	12 652	10 847	1 804
Fixed assets	354	-10 324	10 678
Cash and cash equivalents	9 688	-	9 688
Other assets	19 715	-	19 715
Other liabilities	-16 374	-762	-15 613
Net identifiable assets and liabilties	**26 035**	**-238**	**26 273**
Goodwill upon acquisition	78 613		
Total	**104 648**		

The fair value of intangible assets excluding goodwill at the time of acquisition was 12 652. This is the calculated fair value of the lease agreements for the two vessels EM Leader and EM Express with Euro Trans Skips AS. The lease agreements were a part of the acquistion of OHM. The vessels will, at no standby cost, be ready to mobilise on 3-, 6- or 12-month charters over the course of the next 42 months (EM Leader) and 30 months (EM Express). These intangible assets are depreciated over the charter periods (42 and 30 months).

The goodwill that arises in the purchase price allocation is attributed to expected synergies, competency, capacity and other benefits from combining the activities of OHM with those of the Company.

Note 3 — Spareparts, fuel, anchors and batteries

Amounts in NOK 1 000	2012	2011
Inventory type		
Equipment, components and parts	**40 502**	37 529
Anchors and batteries	**13 265**	6 834
Fuel	**12 876**	4 080
Total	**66 643**	**48 442**

Note 4 — Operating leases

Amounts in NOK 1 000	2012	2011
Operating leases recognised as expense in the period		
Charter hire	**225 095**	151 400
Office premises	**9 729**	9 370
Total	**234 824**	**160 770**

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.

	2012	2011
Number of employees included in the defined benefit plan	**146**	150

Amounts in NOK 1 000	2012	2011
Accrued pension obligations at 31 December	**23 263**	24 491
Estimated effect of future salary increase	**18 409**	22 053
Estimated pension obligations at 31 December	**41 671**	**46 544**
Fair value of plan assets	**-28 525**	-22 400
Actuarial losses/(gains)	**15 388**	2 382
Social security tax	**4 023**	3 740
Net pension obligations	**32 558**	**30 267**
Current service cost	**11 150**	7 648
Interest cost	**1 209**	1 297
Expected return on plan assets	**-1 106**	-1 147
Administration fee	**241**	184
Amortisation of actuarial (gain)/loss	**-**	-459
Social security tax	**1 621**	1 125
Benefit expenses	**13 114**	**8 648**
Principal assumptions:		
Discount rate*	**3.90 %**	2.60 %
Expected rate of return on pension plan assets	**4.00 %**	4.10 %
Expected future salary increases	**3.50 %**	3.50 %
Expected adjustments in National Insurance base rate	**3.25 %**	3.25 %
Expected rate of pension increase	**0.20 %**	0.10 %
Social security tax	**14.10 %**	14.10 %

* The Company has assessed that the OMF-rate on high quality corporate bonds can be used as discount rate because the OMF-market represent a deep market on the relevant terms.

Note 6 — Remuneration

The average number of employees during 2012 was 206.

Amounts in NOK 1 000	2012	2011
Employee expenses:		
Salaries	**223 831**	187 242
Payroll tax	**23 083**	21 126
Pension costs	**13 114**	8 648
Other payments	**23 099**	10 668
Total	**283 127**	227 684

Executive Management remuneration

Amounts in NOK 1 000		Salaries	Bonus	Share options*	Pension benefit	Other benefits**	Total remuneration
Executive Management							
Roar Bekker, CEO	2012	3 242	933	706	158	2 005	**7 044**
Svein T. Knudsen, CFO	2012	2 078	739	660	141	1 355	**4 973**
Anette Mellbye, CLC	2012	1 822	670	171	169	26	**2 859**
David Neser, COO (1 May - 31 December)	2012	1 818		392	82	354	**2 646**

* Share options are costs posted as an expense under the Company's option program in 2012.

** Other benefits includes car allowance, electronic communication, group life insurance, memberships and gain on share options.

Accrued bonuses for the Executive Management as of 31 December 2012 was 1 749.

Payment after termination of employment
The members of the Executive Management are entitled to 1 year pay after termination of contract.

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	Salaries	Bonus	Share options	Pension benefit	Other benefits	Total remuneration
Board of Directors							
Bjarte H. Bruheim, Chairman of the Board	3 228	-	-	-	-	-	**3 228**
Jeffrey Harris, Director	262	-	-	-	-	-	**262**
Grethe Høiland, Director (1 January - 30 June)	99	-	-	-	-	-	**99**
Berit Svendsen, Director	317	-	-	-	-	-	**317**
Stig Eide Sivertsen, Director	216	-	-	-	-	-	**216**
Iman Hill, Director (1 July - 31 December)	97	-	-	-	-	-	**97**
Magni Hofstad, Employee's representative	-	-	-	-	-	-	**-**
Lodve Berre, Employee's representative	-	-	-	-	-	-	**-**

The amounts listed under Directors' fee have been expensed in 2012.

The remuneration of the employee representatives as employees is not included above.

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	635 000	250 000	-	-	140 000	4.81	745 000	10.19	4.05
Svein T. Knudsen	195 000	250 000	-	-	110 000	5.09	335 000	15.76	5.61
Anette Mellbye	224 000	50 000	-	-	-	-	274 000	7.80	3.90
David Neser	-	200 000	-	-	-	-	200 000	15.60	6.07
Board of Directors									
Bjarte H. Bruheim	100 000	250 000	-	-	-	-	350 000	15.43	4.66
Magni Hofstad	16 000	25 000	-	-	-	-	41 000	13.84	4.84
Lodve Berre	10 500	5 000	-	-	-	-	15 500	9.65	4.55

A - average exercise price for options exercied during 2012.
B - average exercise price for number of options by 31 December 2012.

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	2012	2011
*** Fees to auditor included in consultancy fees:**		
Statutory audit services (excl. VAT)	**1 200**	1242
Tax advisory services (excl. VAT)	**91**	1333
Further assurance services	**377**	448
Other non-audit services	**6**	88
Total auditor expenses	**1 674**	**3111**

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 2012	628 102	26 416	48 929	168 302	**871 749**
Purchases	125 913	-	5 974	95 428	**227 315**
Disposals	-655	-	-	-	**-655**
Acquisition cost at 31 December 2012	753 360	26 416	54 903	263 730	**1 098 409**
Accumulated depreciation 1 January 2012	505 359	15 071	39 228	134 745	**694 403**
Depreciation/amortisation for the year	70 975	1 071	5 209	74 375	**151 630**
Disposals	-655	-	-	-	**-655**
Accumulated depreciation 31 December 2012	575 679	16 142	44 437	209 120	**845 378**
Net carrying value at 31 December 2012	**177 681**	**10 274**	**10 466**	**54 610**	**253 031**
Depreciation rate (%)	13-33	7-10	33		

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 2012 amounted to 119 425 (2011: 36 215)

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 + 3.50% and 7.60%.

Finance leases

Amounts in NOK 1 000	2012	2011
Capitalised in the balance sheet 31 December	**35 416**	135 565
Accumulated depreciation	**-25 832**	-105 245
Net carrying value	**9 584**	**30 320**
Depreciation	**7 618**	17 627

	2012		2011	
Amounts in NOK 1 000	Nominal value	Present value	Nominal value	Present value
Leases due within 12 months	**8 244**	**7 561**	8 914	7 669
Leases due within the next 13 - 36 months	**4 820**	**4 381**	13 167	12 132
Remaining debt on leasing contracts 31 December	**13 064**	**11 942**	**22 081**	**19 800**

Amounts in NOK 1 000	2012	2011
Specification of R&D expenses		
External expenses	**4 526**	2 866
Materials	**701**	2 065
Internal time	**18 648**	18 282
Total R&D expenses	**23 875**	**23 214**

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	2012	2011
Taxes base specification		
Profit before tax	**110 845**	-34 163
Permanent differences	**11 984**	5 971
Changes in temporary differences	**-7 360**	-8 441
Tax expenses abroad, paid	**699**	-131
Taxable profits before utilisation of unused tax losses	**116 168**	**-36 764**
Tax losses carried forward	**-116 168**	36 764
Taxable profit (this year tax base)	**-**	-
Income tax expenses		
Non-creditable foreign income taxes	**458**	175
Total income tax expense	**458**	**175**
Temporary differences		
Fixed assets	**-132 151**	-141 525
Provisions tax liability abroad	**-4 155**	-4 432
Pension obligations	**-32 558**	-30 267
Tax losses carried forward	**-1 267 643**	-1 383 810
Total temporary differences	**-1 436 506**	**-1 560 034**
Non-recognised deferred tax asset	**-402 222**	**-436 810**

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	110 845	31 037
Permanent difference		3 356
Other permanent difference (foreign income tax)		196
Change in deferred tax assets, not recognised		-34 588
Non-creditable foreign income taxes		458
Calculated tax		**458**
Effective tax rate in %		0.4 %

Amounts in NOK 1 000	Amount	Applied	Remaining amount
Tax loss carry forward			
2002	29 285	29 285	-
2003	6 332	6 332	-
2004	80 154	26 721	53 433
2005	23 099	-	23 099
2007	294 380	-	294 380
2008	319 560		319 560
2009	418 459		418 459
2010	238 116		238 116
2011	36 764		36 764
2012		116 167	-116 167
Total	**1 446 148**	**62 338**	**1 267 643**

Unused tax losses can be carried forward indefinitely.

Note 9 — Collaterals

There are no long term liabilities due in more than five years from 31 December 2012.

Amounts in NOK 1 000	2012	2011
Collaterals		
Debts secured by pledge	**-**	-

Amounts in NOK 1 000	2012	2011
Pledged assets		
Accounts receivable	**54 586**	-
Tangible and intangible assets	**-**	177 346
Inventory	**-**	48 442
Cash and equivalents	**40 794**	-
Total carrying value of pledged assets	**95 380**	**225 788**

Note 10 —Investment in subsidiaries

Company	Share ownership/ voting rights 2012	Profit/loss 2012	Equity 31 December 2012	Location
EMGS Americas 1 AS	100%	-796	-1 369	Trondheim Norway
EMGS Americas 2 AS	100%	-13	75	Trondheim Norway
Sea Bed Logging - Data Storage Company AS	100%	18	138	Trondheim Norway
Serv. Geologicos Electromagneticos Do Brazil LTDA	99%	13 652	32 439	Rio de Janeiro Brazil
Global emgs Nigeria Ltd	35%	-159	-1 555	Lagos Nigeria
EMGS Americas Inc	100%	1 602	-9 390	Delaware USA
EMGS Malaysia Sdn Bhd	1%	-5 882	-4 548	Kuala Lumpur Malaysia
EMGS Asia Pacific Sdn Bhd	100%	1 074	1 478	Kuala Lumpur Malaysia
EMGS International BV	100%	-135	-471	Amsterdam Holland
EMGS Australia Pty Ltd	100%	2	478	Perth Australia
EMGS Global AS	100%	29	3 114	Trondheim Norway
EMGS Shipping Mexico S. de R.L de C.V.	49%	126	-2 366	Col. Del Valle Mexico
EMGS Sea Bed Logging Mexico S.A. de C.V.	100%	44 738	48 648	Col. Del Valle Mexico
EMGS Labuan Ltd	100%	-1 139	2 658	Labuan Malaysia
EMGS Geophysical Limited	100%	-	-	Nicosia Cyprus
EMGS Global Services (Cyprus) Limited	100%	-	-	Nicosia Cyprus
EMGS MCL Limited	100%	-	-	Nicosia, Cyprus
EMGS Surveys AS	100%	-	75 762	Trondheim, Norway
EM Multi-client AS	100%	-	5	Trondheim, Norway
Total		**53 116**	**145 095**	

Note 11 — Ongoing projects

Part of accounts receivable which is recognised in 2012, but not invoiced per 31 December 2012 amounts to 52 795 (2011: 20 732). Deferred revenue as of 31 December 2012 amounts to 467 (2011: 1 398).

The Company does not have any contracts with expected losses at 31 December 2012.

Note 12 — Receivables

There has not been made any provision for doubtful receivables per 31 December 2012 (2011: 0)

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

Amounts in NOK 1 000	2012	2011
Intercompany balances with group companies		
Trade receivables	-	-
Other receivables	98 914	105 632
Total intercompany receivables	**98 914**	**105 632**
Short term liabilities	-	-
Total intercompany liabilities	**-**	**-**

Note 13 — Bank deposits

Restricted cash as of 31 December 2012:

Amounts in NOK 1 000	Short term	Long term	Total
Employee tax	6 787	-	6 787
Guarantees	40 794	-	40 794
Total restricted cash	**47 581**	-	**47 581**

Note 14 — Share capital and shareholder information

The Company's share capital consists of 198 880 055 shares at a par value of NOK 0.25, giving a total share capital of 49 720.

The largest shareholders as of 31 December 2012:

	Number of ordinary shares	Percentage
Shareholders		
Skagen Global	10 124 112	5.09%
Odin Norge	7 838 224	3.94%
Odin Offshore	7 698 823	3.87%
The Northern Trust Co.	7 364 389	3.70%
Skagen Vekst	5 029 207	2.53%
Skagen Global II	3 878 333	1.95%
Verdipapirfondet DNB SMB	3 675 000	1.85%
JP Morgan Chase Bank	3 255 865	1.64%
Stenshagen Invest AS	3 000 000	1.51%
Spesialf. KLP Alfa Global Energi	2 960 000	1.49%
State Street Bank and Trust Co.	2 657 255	1.34%
Verdipapirfondet DNB Norge (IV)	2 570 552	1.29%
Clearstream Banking S.A.	2 486 993	1.25%
Sundt AS	2 400 000	1.21%
Statoil Pensjon	2 307 327	1.16%
VPF Nordea Kapital	2 241 821	1.13%
Sportmagasinet AS	2 206 588	1.11%
Bjarte Bruheim	2 205 088	1.11%
JP Morgan Clearing Corp.	2 106 163	1.06%
Verdipapirfondet DNB Navigator	2 030 701	1.02%
Other	120 843 614	60.76%
Total	**198 880 055**	**100.00%**

	Shares
Leading representatives of the Company hold the following shares	
CEO	170 000
Board of Directors	2 244 901

Note 15 — Equity

Amounts in NOK 1 000	Share capital	Share premium	Other paid-in capital	Other equity (uncovered loss)	Total
Equity 1 January 2012	**49 360**	**874 538**	**50 383**	**-532 409**	**441 872**
Share-based payments			13 200		**13 200**
Proceeds from options execised	360	7 493			**7 853**
Net income for the year				110 387	**110 387**
Equity 31 December 2012	**49 720**	**882 031**	**63 583**	**-422 020**	**573 314**

Note 16 — Financial items

Amounts in NOK 1 000	2012	2011
Financial income		
Group contribution	-	2 675
Dividends	**97 498**	-
Interest income on short term bank deposits	**740**	1 248
Foreign exchange rate gains	**38 997**	47 618
Total financial income	**137 234**	**51 541**
Financial costs		
Interest expense	**29 628**	34 600
Foreign exchange rate losses	**62 087**	36 551
Other financial expenses	**1 491**	1 904
Total financial costs	**93 205**	**73 055**
Net financial gain/(loss)	**44 029**	**-21 514**

Note 17 — Loans

On 26 May 2011, EMGS secured a NOK 250 million bond bearing an interest at 3 months NIBOR + 7.00% p.a.

The bond is unsecured.

Amounts in NOK 1 000	Currency amount	Carrying value liability	Interest rate	Term to maturity	Date of payment
Bond	NOK 250 million	249 390	3 month NIBOR + 7.00%	1.4 years	26 May 2014

Note 18 — Provisions

The Company recognises a provision for prepayments from two customers in a joint industry project. EMGS and the two customers have desired to collaborate on the development, construction, and testing of an advanced marine electromagnetic acquisition system. After the commercial launch date, the two customers will have a beneficial period with decreasing benefits over four years. The provision will be recorded as revenues during the beneficial period.

The Company has recognised 21 214 as provision per 31 December 2012 (2011: 0).

Oslo, 20 March 2013

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen
Berit Svendsen

Jeffrey Alan Harris

Magni Hofstad
Magni Hofstad

Lodve Berre

Roar Bekker
CEO

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Electromagnetic Geoservices ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Electromagnetic Geoservices ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2012, the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2012, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Chief Executive Officer's responsibility for the financial statements

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion on the financial statements of the Parent Company

In our opinion, the financial statements of Electromagnetic Geoservices ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the Group

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and the statement on corporate governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and the statement on corporate governance concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 20 March 2013
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

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