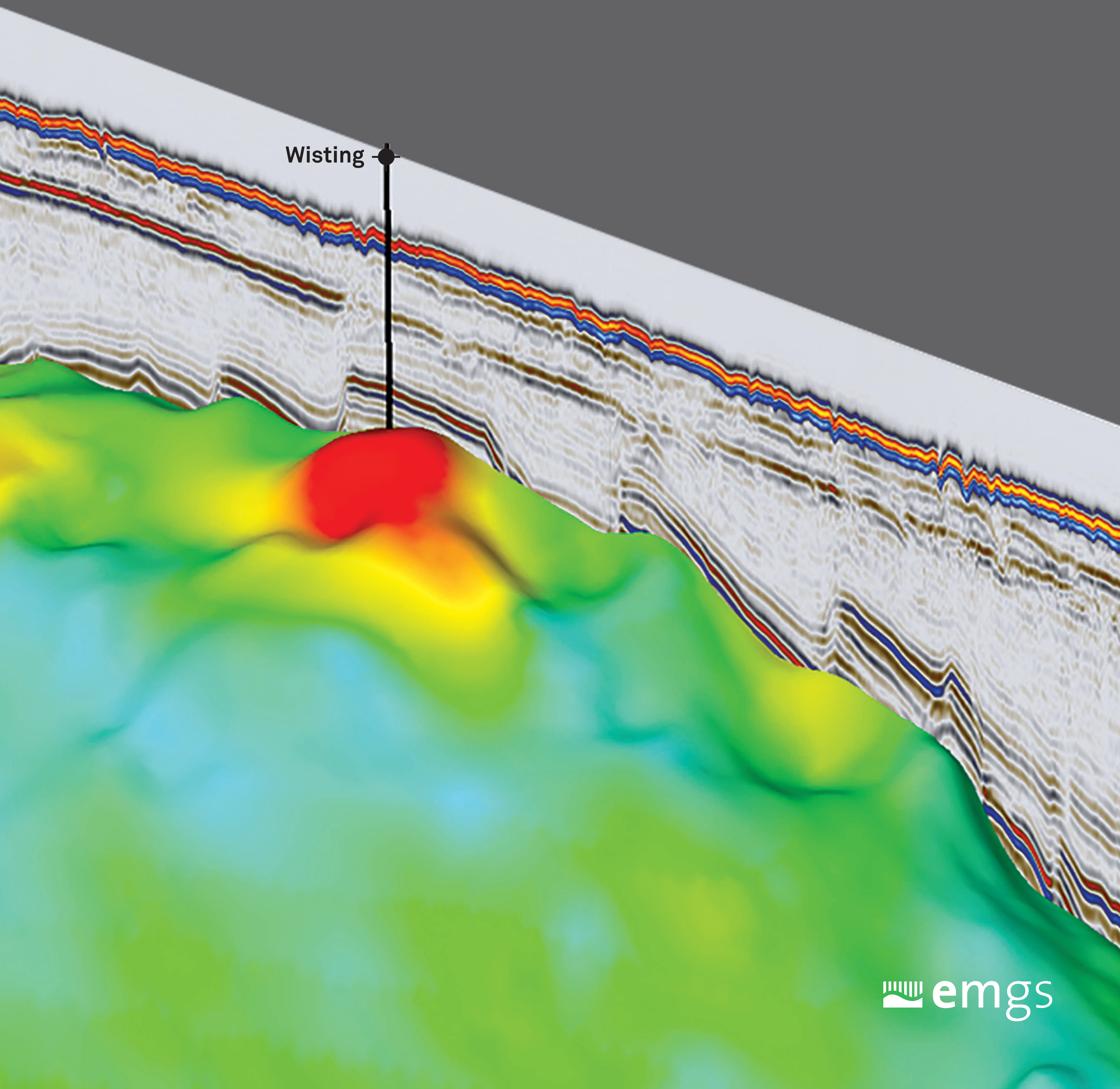
EMGS Annual report 2013



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 the 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 operates on a worldwide basis with main offices in Trondheim and Oslo, Norway; Houston, USA; and Kuala Lumpur, Malaysia.

For more information, visit www.emgs.com

Front page illustration – Seismic data provided by TGS

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Board of Directors Report

2013 was a year of transition and investments in EMGS. While the Company's total revenues were reduced from 2012, the Company made major investments in multi-client libraries in the Barents Sea and Brazil and could show significant progress on its most important task; to accelerate adoption of the EM technology. The Company completed major campaigns in Brunei and Malaysia and started operating on another large long-term contract for Pemex. In addition, the Company's technology track-record in the Barents Sea, as well as important new strategic agreements with both customers and seismic players contributes to strengthen the market's awareness, adoption and integration of the EMGS services.

About EMGS

Company and strategy

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

The integration of EM methods into exploration workflows provides oil and gas companies with a more efficient de-risking and appraisal tool than using traditional exploration techniques alone. The use of EM data is complementary to the use of seismic data, 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 700 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 metres 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 without undue exposure. The combination of the fixed time charters on the vessels named BOA Thalassa, BOA Galatea and Atlantic Guardian, and the pay-per-use charters on the vessels named EM Leader and EM Express provides EMGS with capacity to quickly respond to market demand in Europe, Africa, Americas and the Asia Pacific region with limited financial risk.

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).

The EMGS share was listed on the Oslo Stock Exchange in March 2007. At the end of 2013, the Company had a total of 199,739,555 shares outstanding.

Important events in 2013

In 2013, EMGS generated revenues of USD 145 million, a decrease of 28% from the USD 201 million reported in 2012. The operating expenses related to charter of the vessels, fuel and crew were reduced correspondingly, as the main reason for the lower revenues were lower activity and utilisation on the vessels. Total operating expenses were reduced by 9% in 2013 from the previous year. The Company had an EBITDA of USD 18 million for the full year 2013, compared with USD 56 million for 2012.

In 2013, EMGS continued to work in accordance with the three-year strategy implemented in 2011. The Company's overall objective is to build the EM market and to retain its number-one position through technology leadership. EMGS' strategy for achieving this is to increase the customer adoption (persuade more customers to use EM data regularly), broaden the scope of its services through expanding the application of 3D EM services beyond traditional de-risking of drilling decisions and to increase penetration (convince existing customers to use EM data more often).

Through the year, several activities have been carried out to accomplish the strategy.

Technology update
In 2013, the Company made use of the new Shelf Xpress technology, a high-current source for shallow waters, on a large regional survey in Brunei. Also, the Deep Xpress technology, a high bandwidth source for deeper waters, was used on the Barents Sea multi-client campaign. In both cases the technical differentiation of these two new products, those being a higher output current and therefore a better signal to noise ratio, as well as a better frequency response were recognized compared to the traditional sources. In addition, the new sources allow a significant towing speed increase, in the order of 20-25%.

The Company further strengthened its technical cooperation with an industry partner through an agreement to collaborate on the development of the next generation of inversion software, to complement its work on the next generation of EM hardware. The projects are expected to come to fruition in 2015.

Increase of customer adoption and penetration
Delivering quality projects is crucial to secure customer satisfaction and build confidence in the EM data. EMGS also strongly believe in having a tailored strategy and long-term dedication to each customer/ potential customer.

In 2013, EMGS completed an extensive contract, worth USD 50 million, in the mature basin of Brunei – on the back of a successful USD 20 million project for the same customer in Malaysia in 2012. The survey was the first major regional exploration 3D EM survey, providing the customer with data to improve the understanding of the region, including a regional prospect de-risking and use of EM to identify new leads and stratigraphic plays.

Further, EMGS signed a new long-term contract with PEMEX in June, worth USD 99.8 million. This was the second large contract with PEMEX, a company who has really implemented 3D EM technology into their exploration workflow. The campaign covered an extensive area of 3D EM data in the Gulf of Mexico and the drilling results from the campaign confirmed EM's ability to improve prospect evaluation at a portfolio scale.

EMGS started operating on the new contract for PEMEX with the vessel BOA Galatea in September 2013 and added another vessel, the Atlantic Guardian, from the beginning of December. The vessels are expected to work on the PEMEX contract well into 2014 and the contract is expected to be the single most important contract for the 2014 revenues.

EMGS also completed a range of other surveys for both new and existing customers throughout 2013.

Multi-client investments
Over the past years, the Company has invested in a growing multi-client data library. The Company considers the multi-client part of its business to play an important role in the customer adoption process as more companies can test the use of EM data. In addition, the multi-client EM data provides good “showcases” for the Company.

In March 2013, the Company entered into a cooperation agreement with the seismic company Spectrum ASA covering the Foz de Amazonas basin in Brazil. The agreement gave EMGS access to Spectrum’s data over the area to plan its multi-client campaign covering approximately 8,000km^2 in the Foz de Amazonas basin. The vessel BOA Galatea acquired about 4,400km2 (~55%) of the campaign before commencing on the PEMEX contract in September. In addition, the vessel acquired data in the Ceara basin prior to this.

In April, the vessel Atlantic Guardian, started on a new multi-client 3D EM campaign in the Barents Sea, expanding EMGS’ already extensive library in the area. The campaign was completed in mid-October and the Company now has more than 30,000km^2 of EM data in the Barents Sea. During the year 2013, the Barents Sea has proven to be an important “showcase” for EMGS. The results of approximately 20 wells show consistency between the EM data and the actual drilling results.

In May, EMGS and TGS announced that the two companies had entered into a collaboration agreement to develop joint multi-client projects. The agreement gave EMGS access to TGS’ 2D seismic data, while TGS was given access to EMGS’ 3D EM data. The two companies then announced in June that they had agreed to jointly invest in a specific multi-client survey in the Barents Sea covering 11 blocks. In December, the agreement was expanded to cover 17 blocks and TGS also increased its investment in the blocks from 20 to 30%.

The agreements with the seismic players Spectrum and TGS underpin EMGS’ strategy to integrate 3D EM with seismic data in the exploration workflow and provide further evidence of increased industry recognition of the Company’s technology.

Broadening the scope
In 2013, the Company made investments in sub-basalt and sub-salt proof-of-concept surveys to demonstrate that the combination of CSEM, MT and seismic data can be used to improve imaging in areas of complex geology, called Structural imaging.

The surveys were designed to map the thickness and distribution of salt/basalt layers and, ultimately, help to assess the hydrocarbon prospectivety of sediments below these layers.

The basalt mapping program was done west of Shetland and in the Norwegian Sea and included about 3 months acquisition. The project had good industry pre-funding and experienced satisfactory late-sales.

The sub-salt structural imaging project, the “Sunshine” project in the US Gulf of Mexico, was a joint project with Schlumberger for the integration of 3D EM data with wide-azimuth seismic data. The project has not been made available for sale yet.

Both the projects have shown good results and are expected to contribute to increasing the Company’s addressable market going forward.

All of the abovementioned investments aim to expand the addressable market and increase future revenues.

Other important events

In June 2013, EMGS completed a new unsecured bond issue of NOK 350 million with maturity in June 2016. The new bond loan, having a coupon rate of 3 months NIBOR + 6%, replaced the NOK 250 million bond loan which had coupon of 3 months NIBOR +7% and maturity in May 2014.

On 18 December EMGS announced that the Company had issued claims against Petroleum Geo-Services (PGS) in the High Court of Justice, Patent Court, in London, UK. The basis for the claims was the evaluation by EMGS that PGS has used the Towed Streamer EM in the United Kingdom and Ireland in violation of an EMGS patent. EMGS also sent a warning letter to PGS that similar claims will be filed in Norwegian courts based on PGS' use of the Towed Streamer EM in Norwegian territory infringing EMGS' Norwegian patent.

Events after the balance sheet date

Strategic agreement with North Energy

On 21 January 2014, EMGS announced that the Company had signed an agreement with North Energy ASA (listed at the Oslo Stock Exchange) worth NOK 100 million (USD 16.1 million). The agreement included a sale of EMGS' full 3D EM multi-client data library in the Barents Sea for NOK 75 million and sale of services related to EM inversion and integrated interpretation for NOK 15 million. In addition, North Energy committed to pre-funding of NOK 10 million for a 2014 Barents Sea program.

The payment for the 3D EM data was completed in February in the form of a convertible bond issued by North Energy with a strike price of NOK 4.15, coupon of 6% and with a maturity of 6 months. At maturity, unless converted, EMGS will receive NOK 75 million plus interest. If the convertible bond is fully converted at a conversion price of NOK 4.15, EMGS would be entitled to shares in North Energy equalling 16.1% of the total outstanding shares and votes in North Energy after the Private Placement. The remaining part of the payment of NOK 25 million will be settled in cash.

In addition, EMGS participated with NOK 20 million in North Energy’s private placement, resulting in 5 million shares and an ownership of 4.46% of the shares.
The strategic partnership provides EMGS with a unique opportunity to implement EM in North Energy’s exploration workflow.

First 3D EM multi-client program launched in the US Gulf of Mexico

In February, EMGS announced that it would commence acquisition of a 3D EM multi-client survey called Daybreak, covering approximately 1850 km2 in the Alaminos Canyon area in the southern US Gulf Mexico. The project is the first phase in a planned multiphase program in this area for EMGS. It builds on and extends EMGS' extensive acquisition and integration efforts for Pemex in the northern offshore Mexican waters. The EM data will aid oil and gas exploration companies in assessing acreage for the upcoming western Gulf of Mexico lease round the fall of 2014.

The vessel EM Leader will perform the survey. EMGS entered into a new 3 months charter for the vessel in February 2014.

23rd licensing round and acquisition permit for the Barents Sea

In January 2014, the Norwegian Ministry of Petroleum and Energy received nominations for the 23rd licensing round. Of the 25 blocks nominated by two or more companies in the Fingerdjupet sub basin and Hoop Fault Complex, EMGS has 3D EM data covering 18.

The round reflected particular interest for the formerly disputed southeastern area of the Barents Sea. EMGS expects to expand its 3D EM library in the Barents Sea in 2014, with special focus on the southeastern area and blocks in the vicinity of the Hoop Fault Complex. EMGS has received acquisition permits for the areas.

Other events after the balance sheet date

In January 2014, EMGS announced that it had received a signed contract for 3D EM data acquisition in North West Australia with the repeat customer Apache worth approximately USD 5 million. The survey was completed in February, after which the vessel BOA Thalassa headed towards Africa to perform a 3D EM survey in Morocco worth USD 8.3 million, announced in February.

EMGS also announced that it had received industry funding for around 4 months of work in Norway.

In January, EMGS signed a global framework agreement with Shell International Exploration and Production B.V. for the provision of consultancy services including survey planning/modeling, EM processing, EM inversion and integrated interpretation.

Factors affecting the results of operations

The Group's operational results depend on several factors, where the most important ones are considered to be; demand for EM services, including contract sales and multi-client sales, fleet status and vessel utilisation and the charter terms of the Company's vessel fleet.

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.

However, the Company considers the "adoption rate" of the EM technology to be the crucial factor for the demand for EM services. The "adoption rate" is defined as how fast the oil companies accept the EM technology and approve their acceptance by regularly use the EM data in their exploration workflow to improve their exploration result.

The Company has two main sources of revenue; Contract sales and multi-client sales.

Fleet status and utilisation

As per the end of 2013, the Company had three long-term time charters for the two purpose-built 3D EM vessels, the BOA Thalassa and the BOA Galatea, and the vessel Atlantic Guardian. The vessels have firm charters until December 2015, July 2015 and March 2016 respectively. In addition, the Company hired the vessel EM Leader from January to mid-June and from 3 September to 3 December in 2013.

The vessels operated in Brunei, Malaysia, Norway, Brazil, Mexico, Malaysia, Myanmar and Angola throughout 2013.

In total, EMGS recorded a total of 42.5 vessel months in 2013, an average of 10.6 per quarter, compared to 42.9 vessel months in 2012, an average of 10.7 per quarter. The Company had a vessel utilisation of 67% in 2013, compared with a utilisation of 76% in 2012, which was the main reason for the drop in revenues.

EMGS' 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

The Group conducts operations in several countries around the world. Previously, contracts were entered into by wholly owned subsidiaries of the Company. From late 2012, nearly all of the Group's business has been transacted through EMGS ASA and in USD. The Company has seen this as a trend continuing in 2013. As a consequence of these changes, management has assessed the functional currency of the parent company to be USD from 1 January 2013.

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.

Financial statements

Going concern

The Group has prepared its accounts on the going concern assumption, and the Board confirms in accordance with Section 3-3 of the Norwegian Accounting Act that the going concern assumption is applicable. The Group's reported results, its business strategy, its current budgets and financing, as well as its long-term strategic forecasts provide the basis for the going concern assumption.

As of 31 December 2013, the carrying value of equity was USD 102.2 million, down from USD 114.0 million at the end of 2012.

Results of operations

The year ending 31 December 2013 is compared below with the year ending 31 December 2012.

The Group prepares its accounts in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU.

2013 results compared to guidance

In February 2013, EMGS announced that the Company expected full year revenues for 2013 of USD 210 to 230 million and an EBITDA margin in the range 25 to 30%. The guidance was revised downwards during the year and the Company informed the market about its revised expectations. The main reason for the lower than previously guided revenues was lower demand for EM services than expected consequently yielding lower than expected utilisation throughout the year for the Company's vessels. The Company also invested more in its multi-client libraries, resulting in a higher allocation of the vessels to multi-client programs, but with lower pre-funding levels than expected.

Revenues and operating expenses

The Group recorded revenues of USD 144.6 million in 2013, down from the USD 200.8 million reported for the year 2012. Contract sales totalled USD 111.3 million while multi-client sales came in at USD 33.3 million in 2013, including EMGS' share of the joint project with TGS. This compares to contract sales of USD 176.1 million and multi-client sales of USD 24.7 million in 2012.

The Group recorded 3.5 vessel years in 2013 as opposed to 3.6 in 2012. The main reason for the lower revenues was that the vessel utilisation for the full year 2013 came in at 67%, compared with 76% for 2012.

Charter hire, fuel and crew expenses ended at USD 51.2 million in 2013, 26% lower than the USD 68.8 million reported in 2012. The decrease mainly reflects the lower operational activity. In addition, the Company capitalised multi-client costs of USD 26.3 million in 2013, up from USD 21.4 million in 2012.

Employee expenses amounted to USD 54.3 million in 2013, which was in line with the USD 55.1 million reported for the full year 2012. The expenses decreased although the number of employees increased from 272 in 2012 to 289 in 2013. The main reason for the decrease is that the Group, due to the shortfall of revenues in 2013 compared with expectations, accrued for lower bonuses than in the previous year.

For the full year 2013, other operating expenses came in at USD 21.5 million, up from USD 21.1 million.

Depreciation and amortisation

Depreciation and ordinary amortisation totalled USD 17.5 million in 2013, up from USD 13.9 million in 2012. The increase is due to investment in equipment.

Multi-client amortisation came in at USD 12.3 million in 2013, in line with the USD 12.7 million reported in 2012. The amortisation expense 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 2013 or 2012.

Financial items and result for the year before and after taxes

Interest expenses increased from USD 5.4 million in 2012 to USD 7.2 million this year. The Group recorded a gain on net foreign currency of USD 5.8 million this year, while a loss of USD 6.1 million was recorded in 2012. Net financial items ended at a negative USD 0.9 million, up from a negative USD 11.3 million in 2012.

For 2013, the Group recorded a loss before income taxes of USD 13.2 million, compared to an income of USD 17.9 million in 2012.

Income tax expenses of USD 1.9 million were recorded in 2013, compared with an income tax expense of USD 6.0 million in 2012. These taxes relate to results in foreign jurisdictions.

The Group therefore reported a net loss for the year 2013 of USD 15.1 million, down from a net income of USD 11.9 million in 2012.

Cash flow and balance sheet

Cash flow from operating, investing and financing activities

For 2013, net cash flow from operating activities was USD 51.9 million, an increase from the USD 28.7 million reported in 2012, although the income before tax reported was reduced from USD 17.9 million to a loss of USD 13.2 million. The increase is mainly a result of a positive change in trade receivables of USD 15.5 million, compared with a negative change of USD 19.2 in 2012. Also, there was a positive change in trade payables of USD 6.3 million, compared with a negative change of USD 4.7 million in 2012, in addition to a reduction in taxed paid of USD 16.4 million.

The Group applied USD 45.3 million in investing activities in 2013. The investments consist of USD 26.3 million in multi-client libraries mainly in Brazil and the Barents Sea, USD 10.7 million in property, plant and equipment and USD 8.3 million in intangible assets. In 2012, cash applied in investing activities amounted to USD 42.8 million.

Cash flow from financial activities was USD 9.5 million in 2013, compared with negative USD 4.5 million in 2012. The main components of the cash flow from financial activities were a USD 41.9 million payment of bond and a USD 56.6 million proceeds from bonds. This relates to the Company's issuance of a new bond loan of NOK 350 million in June 2013. Proceeds from the new loan were used to pay the former bond loan of NOK 250 million.

Cash increased by USD 16.0 million in 2013. At 31 December 2013, cash and cash equivalents totalled USD 56.5 million, including USD 1.2 million restricted cash.

Financial position

The Group's total assets amounted to USD 214.2 million on 31 December 2013, up from USD 199.2 million on 31 December 2012. The increase is largely due to increase in the ending multi-client library balance, which was at USD 28.1 million at the end of 2013, up from USD 14.1 million at the end of 2012. The carrying value of the library balance is net of the contribution from TGS of a total of USD 5.9 million during 2013 from the joint project in the Barents Sea.

As explained above, the trade receivables decreased by USD 15.5 million during 2013, from USD 47.0 million to USD 31.5 million.

Total borrowings were USD 56.8 million at 31 December 2013, compared with USD 46.9 million at 31 December 2012.

Liquidity requirements and financing facilities

EMGS' cash flow budget indicates that the Group will meet its liquidity requirements for 2014.

The Group's liquidity needs fluctuate from quarter to quarter depending 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 55.3 million as of 31 December 2013, compared to USD 39.3 million at 31 December 2012.

EMGS has one bond loan totalling USD 56.4 million as of 31 December 2013. In addition, EMGS has financial lease obligations of USD 0.4 million.

The Group's financial position is sound. With total borrowings of USD 56.8 million and a cash position of USD 56.5 million, the Group has a Net Interest Bearing Debt of USD 0.3 million.

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 2013, the Group's R&D expenditure was USD 3.3 million, down from USD 4.1 million in 2012.

In addition, the Group capitalises certain R&D expenses in accordance with IFRS. In 2013, the Group capitalised USD 2.4 million of its employee costs as development, up from USD 1.1 million 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 223 635
Net income allocated	KNOK 223 635

The Company does not have distributable equity as of 31 December 2013.

Financial risk

The Group's principal financial liabilities comprise trade and other payables, financial liabilities at amortised cost, and derivative financial instruments. 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 2013 or 2012.

EMGS is exposed to market risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks which are summarised below. For further details see note 3 to the financial statements.

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. Please see sensitivity analysis in note 3.

i) Interest rate risk

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.

ii) Foreign currency risk

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 NOK to USD in 2013, hence the foreign currency risks is primarily with respect to NOK in EMGS ASA.

For 2013, approximately 97% of the Group's sales are denominated in USD, whilst approximately 40% of costs are denominated in – or directly linked to USD, including most of the vessel, fuel and operational crew costs. Foreign exchange risk arises from future commercial transactions, recognised as assets and liabilities.

Liquidity risk

The Group's sources of liquidity include cash balances, cash flow from operations, borrowings; including its existing and new bank facilities and further debt and equity issues. 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 cash from operations and other debt or equity financings.

As per 31 December 2013, the Company has Net Interest

Bearing Debt of USD 0.3 million. EMGS feels confident in reaching the revenue forecast necessary for a sufficient liquidity.

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 2013, EMGS did not experience any significant defaults in payments from customers.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. In 2013, EMGS had two major customers who amounted to a significant part of sales. These customers were however large international oil companies and considered creditworthy.

Corporate governance

EMGS is committed to healthy corporate governance practices The objective of corporate governance is to regulate the division of roles between shareholders, the Board and executive management more comprehensively than is required by legislation.

EMGS general corporate governance principles are based on maintaining open and reliable lines of communication, having a Board that is autonomous and independent of the executive management, having a clear division of responsibility between the Board and the executive management, and treating all shareholders equally.

The Company applies the Norwegian Code of Practice ("the Code") for Corporate Governance issued on 23 October 2012. The Code was not revised by the Norwegian Corporate Governance Board during 2013.

The Company complies with the Code, with no material deviations from the Code's recommendations. EMGS is a Norwegian public limited company and is listed on the Oslo Stock exchange, and complies with Section 3-3b of the Norwegian Accounting Act in respect of corporate governance. In addition, the Company implements other corporate governance guidelines beneficial to its business.

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.

The Company produces a comprehensive annual report on corporate governance as part of its annual report. For further details, please see the section entitled Corporate Governance in this annual report. The information is also available on the Company's homepage.

CSR, working environment, discrimination and external environment

EMGS has adopted a policy for sustainability and corporate social responsibility ("CSR"). The principles in the policy cover the areas labour rights, anti-corruption, the environment and human rights.

All work in the Group related to sustainability and CSR (together "the CSR work") is based on the CSR Policy.

As the Company is a Norwegian public limited company listed on the Oslo Stock exchange, it complies with Section 3-3c of the Norwegian Accounting Act in respect of corporate social responsibility.

The Company produces an annual statement on its CSR work in the annual report, also including information about the working environment in the Group, equal opportunities and discrimination statement, the external environment and human rights. For further details, please see the section entitled Sustainability and corporate social responsibility in this annual report. The information is also available on the Company's homepage.

Company outlook

In February 2013, EMGS announced that the Company expected full year revenues for 2013 of USD 210 to 230 million and an EBITDA margin in the range 25 to 30%. The guidance was reduced during the year and the Company informed the market about its revised expectations. The main reason for the shortfall of revenues was that the demand for EM services was lower than expected and consequently the Company's vessels had a lower utilisation than expected throughout the year. The Company also invested more in its multi-client libraries, resulting in a higher allocation of the vessels to multi-client programs, as well as lower pre-funding levels than expected.

Going into the 2014, the Board is of the opinion that EMGS is in a better position compared to the same time last year. The Company's backlog has improved, and the Company's strong technology track record is continuously creating increased market awareness.

EMGS acknowledges that the rate of industry adoption remain challenging to predict. As per 31 December 2013, EMGS had approximately USD 79 million in backlog, compared to USD 21 million at the end of 2012. In addition, the Company had secured an additional USD 15 million in revenues by the end of January 2014.

The Company expects to deliver 2014 revenues of more than USD 200 million. Further, the Company expects future multi-client projects to be fully pre-funded and capital expenditure of less than USD 15 million in 2014.

The Company expects to expand its multi-client library in the Barents Sea, Norway, during 2014, in addition to investing in new multi-client projects in the US Gulf of Mexico and Canada. The long-term contract with Pemex in Mexico is considered a key project to complete during 2014.

EMGS' long-term outlook remains positive, and the Company reiterates its strategy to achieve industry-wide integration of EM into the exploration workflow. Company reiterates its strategy to achieve industry-wide integration of EM into the exploration workflow.

Oslo, 19 March 2014

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen

Jeffrey Alan Harris

Christel Brønstad

Svein Ellingsrud

Maria Moræus Hanssen

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 31 December 2013.

EMGS' 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. The separate financial statements for EMGS ASA have been prepared in accordance with Norwegian Accounting Act and Norwegian accounting standards. The Directors' report is in accordance with the requirements in the Norwegian Accounting standard no 16.

To the best of our knowledge:

- the consolidated and separate annual financial statements for 2013 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 2013 for the Group and the 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, 19 March 2014

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen

Jeffrey Alan Harris

Christel Brønstad

Svein Ellingsrud

Maria Moræus Hanssen

Roar Bekker
CEO

Report on corporate governance

EMGS is committed to healthy corporate governance practices that will strengthen confidence in the Company and thereby contribute to optimal value creation over time. The objective of corporate governance is to regulate the division of roles between shareholders, the Board and executive management more comprehensively than is required by legislation.

EMGS' principles for corporate governance are based on the following elements:
- EMGS will provide open, reliable and relevant communication to the public about the Company's activities and its corporate governance
- EMGS' Board will be autonomous and independent of the Company's executive management
- EMGS will pay particular attention to ensuring that there are no conflicts of interest between the interests of its shareholders, the members of its Board and its executive management
- EMGS will ensure a clear division of responsibility between the Board and the executive management
- EMGS will treat all shareholders equally.

1. Implementation and reporting on corporate governance

Implementation and reporting

The Board of Directors (the "Board") of Electromagnetic Geoservices ASA ("EMGS" or "the Company") has the ultimate responsibility for ensuring that the Company practices good corporate governance. The Company, through its Board and executive management, carries out a thorough review and evaluation of its principles for corporate governance on an annual basis.

EMGS is a Norwegian public limited Company and is listed on the Oslo Stock Exchange (Oslo Børs). The Norwegian Accounting Act includes provisions on corporate governance at Section 3-3b which impose a duty on the Company to issue an annual report on its principles and practice for corporate governance. These provisions also stipulate minimum requirements for the content of this report.

The Norwegian Corporate Governance Board (NCGB) has issued the Norwegian Code of Practice for Corporate Governance (the "Code"). Adherence to the Code is based on the "comply or explain" principle, which means that a Company must comply with all the recommendations of the Code or explain why it has chosen an alternative approach to specific recommendations.

The Code imposes more comprehensive requirements than the Accounting Act in respect of the information that the Company must provide.

The Oslo Stock Exchange requires listed companies to publish an annual statement of their policy on corporate governance in accordance with the Code in force at the time. The rules on the Continuing Obligations of listed companies are available at www.oslobors.no.

EMGS complies with the current Code, issued on 23 October 2012. The Company provides a report on its principles for corporate governance in its annual report, and this information is also available on its website at www.emgs.com. EMGS' objective is to comply with all sections of the Code, but the Company may deviate from principles in the Code if required for special purposes. Deviations will be explained in the relevant sections.

The following sets out how the Code is accommodated through the financial year 2013.

Values and guidelines for business ethics and corporate social responsibility

Confidence in EMGS as a company and in its business activities is essential for the Company's continuing competitiveness.

EMGS is committed to openness about its systems and procedures for the management of the Company. This strengthens value creation, builds internal and external confidence and promotes an ethical and sustainable approach to business.

The Board has high priority on implementing high standards of corporate governance and this is therefore reflected in the Company's corporate documents, Articles of Association, policies and business strategy.

The Board has established a Code of Conduct and a set of policies, including on ethics, corporate social responsibility (see separate report in Annual Report), health, safety and environment, drug, smoking and alcohol, as well as on quality. The policies are evaluated at least once a year and updated accordingly. The Company has adopted an anti-corruption compliance programme including mandatory training of all employees.

EMGS' website, www.emgs.com, provides more information about the Company's business activities, Code of Conduct,

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 Company has clear objectives and strategies for its business within the scope of the definition of the business purpose in its Articles of Association.

The Board of Directors' report in the Company's annual report includes a description of the Company's objectives and principal strategies according to the business activities clause from the Articles of Association. EMGS' Articles of Association is available at the Company's website, www.emgs.com

3. Equity and dividends

Equity

As of 31 December 2013, the Company's equity is deemed to be satisfactory by the Board based on a going concern evaluation based on its objective, strategy and risk profile. The Company's equity position is subject to continuing evaluation to ensure that it corresponds to the applicable regulations and the Articles of Association.

As of 31 December 2013, the Company had an equity of USD 102.2 million, representing an equity ratio of 48%.

Dividends

The Company's objective is to generate a long term return for its shareholders through dividends and increases in the share price that is at least in line with the return available on similar investment opportunities of comparable risk. Currently, the Company is investing in opportunitites for growth and does therefore not intend to pay dividends. The Board will establish a clear dividend policy when relevant.

Increases in share capital and buy-back of own shares
In the annual general meeting held in 2013, the Board was given authorisations, as described below, regarding share capital increases:

The Board was given authorisation to increase the share capital by up to NOK 4,972,001.25 through one or more subscriptions equal to an issuance of up to 19,888,005 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 2014.

The Board was also given authorisation to increase the share capital by up to NOK 2,000,000 equal to an issuance of up to 8,000,000 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. All options are based on the Employee Option Program. The authorisation is valid until 30 June 2014.

At the general meeting, the Board's proposal on power of attorney to acquire own shares was not resolved. As a result, the Board did not hold any authorisation to acquire shares as of 31 December 2013.

As of 31 December 2013, the Board had not used the authorisation to increase the share capital for the purpose related to acquisitions and the Company did not own any treasury shares.

4. Equal treatment of shareholders and transactions with close associates

Equal treatment

Equal treatment of shareholders is a main principle for corporate governance in EMGS. The Company has only one class of shares, and any purchases or sales of own shares are carried out through the stock exchange.

The Articles of Association do not impose any restrictions on voting rights. All shares have equal rights.

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. Where the Board 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, an explanation will normally be publicly disclosed in a stock exchange announcement issued in connection with the increase of the capital.

The Board of EMGS will waive the pre-emption of existing shareholders in connection with share capital increases following the Company's obligations towards holders of options if and when such options are exercised.

Transactions with close associates

In the event of any material transaction between the Company and its shareholders, a shareholder's parent Company, members of the Board, members of the executive personnel or close associates of any such parties, the Board will, as a general rule, arrange for a valuation by an independent third party.

EMGS has implemented procedures for the Board, 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.

The Company has agreements with Companies in which the Chairman of the Board, Mr. Bjarte Bruheim, and the CEO of the Group is related to. EMGS' Board and management are satisfied that all agreements entered into between the Company and its main shareholders (including related companies), as well as all other business transactions and contracts, are on an "arm's length" basis.

The transactions are further described in the note 32 to the annual accounts.

5. Freely negotiable shares

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

EMGS is listed on the Oslo Stock Exchange, and the Company works actively to attract the interest of new shareholders. Strong liquidity in the Company's shares is essential if the Company is to be viewed as an attractive investment and thus achieve a low cost of capital.

6. General meetings

The Annual General Meeting

The Annual General Meeting ("AGM") is the Company's ultimate corporate body. EMGS encourages all shareholders to participate in general meetings. The Board 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.

Preparation for the AGM

The AGM is normally held in June each year, and in any case no later than 30 June, which is the latest date permitted by company law. The 2013 AGM was held on 21 June 2013. The 2014 AGM is scheduled to be held on 10 June 2014.

The notice calling the AGM and any Extraordinary General Meeting is made available on the Company's website and sent to shareholders by post no later than three weeks in advance of the meeting.

According to the Company's article 8 in the Articles of Association and provided that the shareholders may participate in General Meetings electronically, ref. article 9 in the articles, the AGM may, with the majority required to amend the Articles of Association and with effect until the next AGM, decide that the calling notice for Extraordinary General Meetings shall be sent at least two weeks before the date of the meeting.

Shareholders who wish to take part in the general meeting must give notice to the Company by the date stated in the notice of meeting, which date must be at least two business days before the general meeting.

Each share carries one vote in the Company's general meeting.

Article 10 of the Articles of Association stipulates that the supporting documents dealing with matters to be considered by the AGM can be made available on the Company's website rather than being sent to shareholders by post. However, shareholders are still entitled to receive the documents by post upon request if they so wish.

The notice calling the general meeting along with a form for appointing a proxy and sufficiently detailed supporting information, including proposals for resolutions and comments on matters where no resolution is proposed, are disclosed on the Company's website www.emgs.com. 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.

The date of the next AGM is included in the company's financial calendar. The financial calendar for the coming year is published no later than 31 December in the form of a stock exchange announcement and is also made available on the company's website.

Participation in the AGM

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 article 9 of the Articles of Association, the Board 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 members will, if possible, attend the general meetings. The auditor will be present at the AGM, as will the Chief Executive Officer and the Chief Financial Officer.

Agenda and conduct of the AGM

The Board decides the agenda for the AGM. The main agenda items are determined by the requirements of the Public Limited Liability Companies Act.

The Code stipulates that the Board 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 of the Board. This is also laid down in the Articles of Associations, section 11.

The AGM minutes are published by issuing a stock exchange announcement, and are also made available on the Company's homepage, www.emgs.com

7. Nomination committee

EMGS has a nomination committee elected by the AGM. According to article 12 in the Company's Articles of Association, the committee shall consist of 2 to 3 members who shall be elected by the AGM for a period of 2 years, unless the AGM decides a shorter period.

As per 31 December 2013, the nomination committee consists of 3 members;

- Jogeir Romestrand (Chairperson)
- Johan Hvide
- Kristine Tveteraas

All members of the committee are considered independent of the Board and the executive management.

The nomination committee prepares proposals for the AGM regarding the shareholder elected board and the Chairman of the Board. Also, the committee shall prepare proposals regarding election of members to – and Chairman of the nomination committee, remuneration to the members of the Board, and suggest changes to the mandate or guidelines for the nomination committee.

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 article 12 of the Articles of Association and in the guidelines for the nomination committee, which were approved by the annual general meeting in 2012.

8. Board: composition and independence

The composition of the Board

EMGS does not have a corporate assembly.

In accordance with the Articles of Association, the Board shall consist of 5–10 board members. At the end of 2013, there are seven members of the Board, including two employee representatives. Three of the members are women.

The shareholder-elected members represent varied and broad experience from relevant industries and areas of speciality, and the members bring experience from both Norwegian and international companies. Any proposal for the election of shareholder-appointed board members are made with a view to ensuring that the Board 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 will be elected by the general meeting. Board members are encouraged to own shares in the Company.

As of 31 December 2013, the Board consists of the following:

- Bjarte Bruheim, Chairman
- Stig Eide Sivertsen (independent)
- Jeffrey Allan Harris (independent)
- Berit Svendsen (independent)
- Maria Moræus Hanssen (independent)
- Svein Ellingsrud, employee representative
- Christel Brønstad, employee representative
- Magni Hofstad, deputy employee representative
- Lodve Berre, deputy employee representative

Board members are elected for a period of two years.

Independence of the Board

The Board does not include any members from the Company's executive management.

Four of the seven current board members are independent of the Company's executive personnel, substantial business associations and major shareholders. The Chairman of the Board performs services for the Company beyond the work directly related to his directorship, and consequently, may not be considered independent of the executive personnel. The Chairman is also among the Company's 20 largest shareholders. In order to ensure a more independent consideration of matters of a material character in which the Chairman of the Board is or has been personally involved, such matters will be chaired by another member of the Board.

9. The work of the Board

The Board's duties and responsibilities

The Board has the ultimate responsibility for the management of the Company and for supervising its day-to-day management and activities in general. This includes developing the Company's strategy and monitoring its implementation. In addition, the Board exercises supervision responsibilities to ensure that the Company manages its business and assets and carries out risk management in a prudent and satisfactory manner. The Board is responsible for the appointment of the CEO. The Board prepares an annual plan for its work.

Mandate for the Board

In accordance with the provisions of Norwegian company law, the terms of reference for the Board are set out in a formal mandate that includes specific rules and guidelines on the work of the Board and decision making. The Chairman of the Board is responsible for ensuring that the work of the Board is carried out in an effective and proper manner in accordance with legislation.

Mandate for the CEO

The Board issues a mandate for the work of the CEO. There is a clear division of responsibilities between the Board and the CEO. The CEO is responsible for the operational management of the Company.

Financial reporting

The Board receives periodic reports on the Company's commercial and financial status. The Company follows the timetable laid down by the Oslo Stock Exchange for the publication of interim and annual reports.

Board meetings

The Board holds regular meetings and a strategy meeting each year. Extraordinary Board meetings are held as and when required, to consider matters that cannot wait until the next regular meeting. In addition, the Board has appointed an audit committee and a remuneration committee to work on matters in these areas.

The Board has established and stipulated instructions for an audit committee and a compensation committee to assist them. These committees are composed of board members. The Board provide details in the annual report on the committees appointed.

Audit Committee

The audit committee is appointed by the Board. Its main responsibilities are to supervise the Company's systems for internal control, to ensure that the auditor is independent and that the annual accounts give a fair picture of the Company's financial results and financial condition in accordance with generally accepted accounting practice.

The audit committee has reviewed the procedures for risk management and financial controls in the major areas of the Company's business activities.

The audit committee receives reports on the work of the external auditor and the results of the audit. In addition.

As per 31 December 2013, the audit committee consists of the following:

· Stig Eide Sivertsen
· Bjarte Bruheim
· Maria Moræus Hanssen

Remuneration Committee

The remuneration committee makes proposals to the Board on the employment terms, as well as conditions and total remuneration of the CEO and other executive personnel.

As per 31 December 2013, the compensation committee consists of the following:
· Bjarte Bruheim
· Berit Svendsen
· Jeffrey Harris

Annual evaluation

The Board' working methods and interactions are subject to annual revision.

10. Risk management and internal control

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

EMGS' 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 assess the integrity of EMGS' accounts. It also inquires into, on behalf of the Board, issues related to financial review and internal control, and the external audit of EMGS' accounts. The Board 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.

11. Remuneration for the Board

The AGM decides the remuneration paid to members of the Board annually. The nomination committee prepare proposals for the AGM regarding remuneration for Board members. The remuneration of the Board reflect the Board's responsibility, expertise and time commitment, and the complexity of the Company's activities.

The Code recommends that remuneration of the Board should not be linked to the Company's performance and, further, that the Company should not grant options to members of its Board. The Company has not, except as described below, granted options to members of the Board after its shares were listed on the Oslo Stock Exchange.

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. The 250,000 options have a strike price of NOK 19.30 and will expire on 14 February 2019.

The employee representatives on the Board hold options, but these have been 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.

Details on the remuneration to the Board can be found in notes to the financial statements of the Company. The employee representatives do not receive any compensation for their services as board members.

12. Remuneration of the executive personnel

The Board determines salary and other remuneration systems for key management personnel pursuant to the provisions of the Norwegian Public Limited Liability Companies Act. The CEO's employment conditions and remuneration are determined by the Board and are presented to the AGM. The Board annually evaluates salary and other remuneration for the CEO. Details on the remuneration to the Company's executive personel is included in notes to the financial statements of the Company.

The guidelines of the remuneration system for the executive personnel is determined by the Board and is presented to the general meeting through a declaration on principles for management remuneration, which is required by law. This declaration is also included in the Company's annual report.

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

13. Information and communications

EMGS maintains regular dialogue with analysts and investors. The Company considers it very important to inform shareholders and investors about the Company's commercial and financial performance.

The Company strives to continuously publish all relevant information to the market in a timely, effective and non-discriminatory manner. All stock exchange announcements are made available both on the company's website and on the Oslo Stock Exchange news website at www.newsweb.no, and are also distributed to news agencies (via Hugin).

Financial reports

EMGS normally publishes its provisional annual accounts early February. The complete annual report and accounts are made available to shareholders no later three weeks prior to the AGM and no later than by the end of April, as required by the Securities Trading Act (section 5-5 (1)). Quarterly interim reports are normally published within six weeks following the end of the quarter.

The Company's financial calendar for the coming year is published no later than 31 December in accordance with the rules of the Oslo Stock Exchange. The financial calendar is available on the Company's website and on the Oslo Stock Exchange website.

EMGS holds open presentations in connection with the publication of its interim results. These presentations review the published results, market conditions and the Company's future prospects. The presentations are given by the CEO and the CFO at a minimum, and are distributed by webcast so that anyone unable to attend can follow the presentation on the internet in real time or view it later. Quarterly reports, presentation material and webcasts are all available on the Company's website.

Following the publication of the interim results, the

Company travels to meet with shareholders and potential investors outside Norway.

Other market information

In addition to the dialogue between the shareholders in the general meeting, the Board aspires to arrange contact with shareholders other than through general meetings. This takes place through the Chairman of the Board, the CEO and/or the CFO, and is subject to guidelines laid down by the Board.

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 endorses the recommendation of the Code for corporate governance and takeover bids. EMGS' 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, 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 will not seek to hinder or obstruct takeover bids for EMGS' activities or shares, unless there are good reasons.

If an offer is made for EMGS' shares, the Board 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 all meetings of the audit committee, the Board 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 in the meeting dealing with the annual financial statements, 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. The Board holds a meeting with the auditor at least once a year where no member of the executive management is present.

The Board 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. This is also included in the annual report.

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

Report on sustainability and corporate social responsibility 2013

Introduction

This report from the Board of Directors (the "Board) of Electromagnetic Geoservices ASA ("EMGS" or "the Company") with its subsidiaries (together the "Group") describes United Nations Global Compact ("UN") principles for sustainability and corporate social responsibility ("CSR") and EMGS' efforts, measures and results related to each of these in 2013. EMGS' policy for sustainability and CSR (the "CSR Policy") is based on these principles, and cover the areas labour rights, anti-corruption, the environment and human rights. The CSR policy is available on the Company's homepage, www.emgs.com

It is the intention of EMGS that the efforts within working environment issues, anti-corruption procedures and training, and the attitude encouraged from the employees shall contribute to improved understanding for human rights, working ethics and a cleaner environment.

The work related to sustainability and CSR (together "the CSR work") is based on three main pillars:

· Quality
· Safety
· Integrity

The statement is mainly based on feedback from management, the Ethics Committee, various other internal committees and reporting systems. During 2013, CSR issues were discussed in management meetings and by the Board.

Statement on CSR work 2013

Below is an overview EMGS' principles, a description of how the Company report's issues related to CSR, as well as actions and measures taken under each of the main CSR areas.

Labour rights

Principles for labour rights:

· Freedom of association and right to collective bargaining;
· No forced and compulsory labour;
· No child labour; and
· No discrimination

EMGS has implemented a strict regime for health, safety and environment ("HSE"). Reporting is done through the internal quality control management system for HSE, called GEMS.

The EMGS HSE mission statement is: No harm!

In daily operations, a potential or actual breach is reported and tracked through a report-card system in the GEMS.

The working environment and the employees

As of 31 December 2013, the Group had 294 employees. In Norway, 107 works at the Company's headquarter in Trondheim and 22 are employed at the regional office in Oslo. In addition, 34 are based in Houston, USA, 24 in Kuala Lumpur, Malaysia, 81 works offshore and the remaining 26 work in other locations. The Company closed down its regional office in Stavanger, Norway, in 2013.

The Board believes that the Group's general working environment is good. It is a prioritised goal for EMGS to maintain this status, and the management team had close contact with employee representatives throughout the year.

EMGS has an education and training centre, called the EMGS Training Centre. This Centre provides internal and external educational programs. As many employees are involved in offshore operations, a dedicated HSE training program has been implemented to ensure a safe working environment.

The Company sponsors and promotes various social and sporting activities, as management believes these to be beneficial in securing a good working environment.

The percentage of absences due to illness in 2013 was 1.7%, an increase from 1.0% in 2012. During 2013, the Company had no lost time injuries.

Equal opportunities and discrimination statement

EMGS' 294 employees represent more than 28 different nations with various cultures.

EMGS has defined and implemented guidelines to protect against gender discrimination. At the end of 2013, 22% of the Group's employees were female, compared to 23% in 2012. The Group will continue to prioritise to improve the current imbalance by following its 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 Act's objective is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and faith. The Group is actively working 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' working environment, in particular as the Group has employees from so many different nations. The Group uses English as the company language.

EMGS aim to have a workplace with no discrimination due to reduced functional ability. The Company therefore work to design and adjust the physical conditions of its workplaces according to this. For work offshore, there are limited possibilities for offering work to employees with reduced functional ability.

Committees work

The Working Environment Committee shall participate in planning safety and environmental work and also the follow up of developments related. The Committee met 4 times in 2013.

The Forum for Employee Representatives meets with the CEO, the head of HR and the Chief Legal Counsel. The forum is regulated by the Norwegian Working Environment Act. The goal is to facilitate cooperation between the employee representatives and management related to the working environment and the general terms and conditions of all employees and conflicts. The forum met with management 6 times in 2013. One outcome of the cooperation in 2013 was a new system for offshore compensation implemented as of 1 January 2014.

Working environment measures

EMGS management seeks to facilitate an effective dialogue with its employees. In doing so, visits to vessels, office meetings and offshore seminars are seen as important.

In 2013 management made 146 visits to vessels in the Company's fleet and had a number of visits to all regional offices. At the headquarters in Trondheim the Company has annual offshore seminars including all offshore employees and representatives of management and other departments within EMGS. The aim of these seminars is to facilitate training, exchange experience and improve cooperation between offshore and office personnel. Two seminars for offshore crew were arranged in 2013.

The annual HSE report for 2013 identifies KPI's, goals and objectives within HSE. During 2013, a total of 2.687 report cards were filed by EMGS personnel, of which 2.625 were filed on the vessels. In total, 338 HSE meetings were held. Most of the reports were on non-conformance.

The Company's General Terms for Offshore employees has been amended as a result of cooperation between the Employee Representatives and management. The new General Terms were effective from 1 January 2014.
The Martitime Labour Convention, MLC 2006, and the Norwegian law implementing this convention, the Shipworker Act was in force from August 2013. The MLC 2006 is an ILO guideline ratified by 47 countries and implemented on 76% of the world gross tonnage of ships. EMGS' working environment and terms were already in line with the MLC 2006 and the Shipworker Act, but certain documentation was altered to reflect new reporting requirements.

The conclusion of the review is that EMGS has not experienced any reported breach of the four principles within Labour rights in 2013.

Anti-Corruption

Principle for anti-corruption:

· Businesses should work against corruption in all its forms, including extortion and bribery

EMGS has zero tolerance for corruption and commits to follow the regulations given by FCPA, UK Bribery Act and the Norwegian penal code in this respect.

The Company has over the years given significant attention to prevent corruption and bribery. The efforts include a training and compliance program with a hot-line for reporting. In addition, employees can report concerns directly to the Ethics committee.

In 2013 a new web-based training course was launched for all employees. The course was completed by 96% of the employees. Management has attended and given several courses in anti-corruption compliance in 2013. All offices have received anti-corruption compliance training.
EMGS has several policies and standards related to the anti-corruption compliance program, including but not limited to the Ethics Policy and Code of Conduct.

Management has given reports on anti-corruption compliance measures 6 times to the Board in 2013.

EMGS has experienced offers to engage in corrupt behaviour also in 2013. Such offers have been handled by employees in line with the Company's policies and been reported to the Chief Legal Counsel. The internal control has, as far as the Company's knows, stopped all attempts in 2013.

External environment

Principles related to environment:

- Precautionary approach to environmental challenges;
- Initiatives to promote greater environmental responsibility; and
- Encourage the development and diffusion of environmentally friendly technologies.

EMGS shall act responsibly in regards to its impact on the climate and the environment.

EMGS has implemented an "Environmental policy and Environment Standard" which is the basis for the Company's work to ensure the development of environmental protective measures.

In 2013 EMGS took the initiative to upgrade one of its chartered vessels in order to reduce fuel consumption by up to 40%. The upgrade will be done in 2014.

EMGS is of the opinion that an increase in the use of its technology by oil companies will reduce the footprint of oil exploration on the environment.

Human Rights

Principles related to Human Rights:

- Support and respect the protection of human rights; and
- Make sure not to be complicit in human rights abuses.

Human rights abuses shall not occur at EMGS.

The reputation of the Company is created by the conduct of each individual employee. The employees are obligated to study the EMGS policies, including but not limited to Ethics Policy and Code of Conduct and perform their duties accordingly.

On an operating level, EMGS seeks to ensure that there is a good working environment without discrimination of any kind in the Group. The managers handle all minor issues. If/when there are issues of broader magnitude, HR, legal and the Ethics Committee are involved.

No claim regarding Human Rights has been reported to the HR, QHSE, legal or the Ethics Committee in 2013.

Oslo, 19 March 2014

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen

Jeffrey Alan Harris

Christel Brønstad

Svein Ellingsrud

Maria Moræus Hanssen

Roar Bekker
CEO

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 3 June 2014 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 2014

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 organisation. 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 recognises 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 2013, it was resolved to authorize the Board to issue a maximum of 10,000,000 options over two 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 (equal to 14,980,466 options as at 31 December 2013) in the Company. The total number of outstanding options as at 31 December 2013 was 10,578,507.

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 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

Basic 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 2014 and until the Annual General Meeting for 2014 in 2015, although adjustments may be made.

In the current performance bonus system, the variable benefits are 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 2013, 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 2013

The remuneration policies set out in the declaration on determination of salary and other compensation to the CEO and other executive management for 2013 were followed in all respects for the year 2013. No member of the executive management received bonus above 40% of the annual Basic Salary.

Oslo, 19 March 2014

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	2013	2012 Restated*
Operating revenues			
Contract sales	6	**111 284**	176 118
Multi-client pre-funding	5, 6	**30 387**	15 960
Multi-client late sales	5. 6	**2 927**	8 753
Total operating revenues		**144 598**	**200 831**
Operating expenses			
Charter hire, fuel and crew expenses	7	**51 219**	68 822
Employee expenses	8	**54 344**	55 076
Depreciation and ordinary amortisation	16, 17	**17 495**	13 920
Multi-client amortisation	16	**12 337**	12 709
Other operating expenses	9, 10	**21 488**	21 080
Total operating expenses		**156 883**	**171 607**
Operating profit/(loss)		**-12 285**	**29 224**
Financial income and expenses			
Interest income	11	**477**	220
Interest expenses	11	**-7 204**	-5 377
Net foreign currency income/(loss)	11	**5 782**	-6 125
Net financial items		**-945**	**-11 282**
Income/(loss) before income tax		**-13 230**	**17 942**
Income tax expense	12	**1 865**	6 047
Income/(loss) for the year		**-15 095**	**11 895**
Basic income/(loss) per share (result for the year/shares) in USD	31	**-0.08**	**0.06**
Diluted income/(loss) per share (EPS) in USD	31	**-0.08**	**0.06**

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustment made, refer Note 2.22

Consolidated statement of comprehensive income

Year ended 31 December

Amounts in USD 1 000	Note	2013	2012 Restated*
Income/(loss) for the year		**-15 095**	**11 895**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**-255**	4 046
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain/(losses) on defined benefit plans	22	**-1 055**	3 075
Other comprehensive income		**-1 310**	7 121
Total comprehensive income/(loss) for the year		**-16 405**	19 016

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustment made, refer Note 2.22

Consolidated statement of financial position

As at 31 December

Amounts in USD 1 000	Note	2013	2012 Restated*	As at 1 January 2012 Restated*
ASSETS				
Non-current assets				
Goodwill	16	**14 422**	14 422	14 422
Deferred tax asset	13	**3 202**	-	-
Multi-client library	16	**28 108**	14 126	5 065
Other intangible assets	16	**3 352**	4 877	5 587
Property, plant and equipment	17	**27 683**	32 233	20 615
Assets under construction	17	**19 200**	10 893	14 275
Restricted cash	21	**-**	-	590
Total non-current assets		**95 967**	**76 551**	**60 554**
Current assets				
Spare parts, fuel, anchors and batteries	19	**12 990**	12 874	9 733
Trade receivables	20	**31 520**	47 000	27 761
Other receivables	18	**17 138**	14 961	6 207
Cash and cash equivalents	21	**55 305**	39 259	57 796
Restricted cash	21	**1 240**	8 543	16 553
Total current assets		**118 193**	**122 637**	**118 050**
Total assets		**214 160**	**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	**285 249**	268 709	265 027
Other reserves		**-1 717**	-383	-4 428
Actuarial gains(losses)	22	**2 508**	3 563	488
Retained earnings		**-183 823**	-157 939	-169 836
Total equity		**102 217**	**113 950**	**91 251**
LIABILITIES				
Non-current liabilities				
Employee benefit obligations	22	**3 452**	2 286	4 563
Non-current tax liability		**35**	351	580
Provisions	25	**7 164**	3 811	-
Borrowings	23	**56 628**	45 590	43 022
Total non-current liabilities		**67 279**	**52 038**	**48 165**
Current liabilities				
Trade payables	24	**15 942**	9 616	14 276
Current tax liabilities	13	**2 299**	2 383	7 082
Other short term liabilities	26	**26 295**	19 843	16 552
Borrowings	23	**128**	1 358	1 278
Total current liabilities		**44 664**	**33 200**	**39 188**
Total liabilities		**111 943**	**85 238**	**87 353**
Total equity and liabilities		**214 160**	**199 188**	**178 604**

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

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustment made, refer Note 2.22

Electromagnetic Geoservices Group

Consolidated statement of cash flows

Year ended 31 December

Amounts in USD 1 000	Note	2013	2012
Net cash flow from operating activities:			
Income/(loss) before income tax		**-13 230**	17 942
Adjustments for:			
Depreciation and ordinary amortisation	16, 17	**17 495**	13 920
Multi-client amortisation	16	**12 337**	12 709
Non-cash portion of pension expenses		**1 167**	-1 769
Cost of share-based payments		**5 173**	2 305
Change in trade receivables		**15 480**	-19 239
Change in inventories		**-116**	-3 142
Change in trade payables		**6 326**	-4 660
Change in other working capital		**3 955**	16 071
Taxes paid		**-5 180**	-21 594
Withholding tax expenses		**3 231**	10 847
Amortisation of interest		**5 273**	5 347
Net cash flow from operating activities		**51 911**	**28 737**
Investing activities:			
Purchases of property, plant and equipment		**-10 707**	-21 171
Purchases of intangible assets		**-8 306**	-263
Investment in multi-client library		**-26 319**	-21 362
Cash used in investing activities		**-45 332**	**-42 796**
Financial activities:			
Financial lease payments-principal and interest		**-1 753**	-1 159
Proceeds from issuance of ordinary shares	14	**792**	1 377
Payment of bond		**-41 873**	-
Proceeds from bonds		**56 550**	-
Payment of interest on bonds		**-4 249**	-4 696
Cash provided by financial activities		**9 467**	**-4 478**
Net change in cash		**16 046**	**-18 537**
Cash balance beginning of period		**39 259**	57 796
Cash balance end of period		**55 305**	39 259
Net change in cash		**16 046**	**-18 537**
Interest paid		**-4 208**	-4 999
Interest received		**477**	220

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	Foreign currency translation reserves	Actuarial gains/(losses)	Retained earnings	Total equity
Balance at 31 December 2011		**265 027**	**-4 428**	**-**	**-169 836**	**90 764**
Implementation of IAS 19R		-	-	488	-	**488**
Balance at 1 January 2012		**265 027**	**-4 428**	**488**	**-169 836**	**91 252**
Income/(loss) for the year		-	-	-	11 895	**11 895**
Other comprehensive income		-	4 046	3 075	-	**7 121**
Total comprehensive income		**-**	**4 046**	**3 075**	**11 895**	**19 016**
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**	**3 563**	**-157 939**	**113 950**
Change in functional currency		10 574	-1 078	-	-10 789	**-1 293**
Balance at 1 January 2013		**279 283**	**-1 461**	**3 563**	**-168 728**	**112 657**
Income/(loss) for the year		-	-	-	-15 095	**-15 095**
Other comprehensive income		-	-255	-1 055	-	**-1 310**
Total comprehensive income		**-**	**-255**	**-1 055**	**-15 095**	**-16 405**
Proceeds from shares issued - options exercised	14	792	-	-	-	**792**
Share-based payment	14	5 173	-	-	-	**5 173**
Balance at 31 December 2013		**285 249**	**-1 717**	**2 508**	**-183 823**	**102 217**

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, Canada 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 19 March 2014.

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.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy. An additional statement of financial position as at 1 January 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies, refer Note 2.22.

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 Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

· Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

· Exposure, or rights, to variable returns from its involvement with the investee, and
· The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

· The contractual agreement with the other vote holders of the investee
· Rights arising from other contractual arrangements
· The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquire at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related 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 Interest in joint operations

A joint operations is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises the following in relation to its interest in a joint operation:

· its assets, including its share of any assets held jointly;
· its liabilities, including its share of any liabilities incurred jointly;
· its revenue from the sale of its share of the output arising from the joint operation;
· its share of the revenue from the sale of the output by the joint operation; and
· its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues, and expenses are recognised in accordance with the applicable IFRS for the respective items.

2.5 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax liabilities are classified as non-current liabilities.

2.6 Foreign currency translations

a) Functional and presentation currency

The financial statements of each entity within the Group reflect transactions recorded in the currency of the economic environment in which it operates (the functional currency). The functional currency of the Company is USD Dollars (USD).

The consolidated financial statements are presented in 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.

2.7 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. 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.

2.8 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recorded as a reduction of the asset up to the amount that covers the cost price.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual installments.

2.9 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 2.13).

2.10 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.

2.11 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
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

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 calculated minimum linear amortisation is recorded quarterly after amortisation for sales.

2.12 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.

2.13 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, such as for goodwill and intangible assets with infinite useful life, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transaction can be identified, an appropriate valuation model is used.

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.

2.14 Financial assets

Financial assets are classified at initial recognition, as financial assets 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. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. The Group determines the classification of its financial assets dependent on the financial assets nature and the purpose for the acquisition. The Group's financial assets include cash and short term deposits, trade and other receivables, and are classified as loan and receivables.

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.

2.15 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. An impairment exists if one or more events that has occurred after the initial recognition of the asset, 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.

2.16 Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of 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) Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the borrowing period using the effective interest rate method.

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.

2.17 Derecognition of financial assets and liabilities

a) Financial assets

A financial asset is derecognised when:

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

b) Financial liabilities

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

2.18 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. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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.

c) Sales tax

Expenses and assets are recognised net of the amout of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.19 Employee benefits

a) Pension obligations

The Company operates a defined benefit plan. The scheme is funded through payments to an insurance company. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses and the return on plan assets, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The net pension cost for the period is presented 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 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 16.

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.

2.20 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.

2.21 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.

2.22 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 2013:

· IAS 1 Amendment: Presentation of Items of Other Comprehensive Income
· IAS 19 Amendment: Employee Benefits
· IFRS 13 Fair Value Measurement

IAS 1 *Presentation of Items of Other Comprehensive Income (Amendments)*
The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ("recycled") to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 19 *Employee Benefits (Revised 2011) (IAS 19R)*
The Group applied IAS 19R retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated.

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss. Expected returns on plan assets are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised.

The Group has previously used the "corridor approach", which allowed the Group to not recognise changes resulting actuarial gains or losses as long as these were within in a pre-defined bandwidth when accounting for actuarial gains and losses. The removal of the corridor mechanism implies that actuarial gains and losses shall be recognised in OCI in the current period. The gain within the corridor stood at 488 as of 1 January 2012, and it has been dissolved, and the pension obligation decreased by the same amount, whereas equity increased by 488.

The amended standard impacts the net benefit expense as the expected return on plan assets are calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The difference between actual return of assets and the estimated return is recognised in OCI. The pension expense under previous standard was 2 253 in 2012. No changes are made in the 2012 pension expense, as the changes are immaterial. Under the new standard, changes in actuarial assumptions recognised under OCI in 2012 is 3 075. The pension obligation as of 31 Desember 2012 decreased from 5 849 to 2 286. Since the Group has unrecognised deferred tax assets, no tax obligation has been recognised as a result of the implementation which these will be deducted from the asset. The impact on equity for the year ended 31 December 2013 was -1 055.

IAS 19R also requires more extensive disclosures. These have been provided in Note 23.

IAS 19R has been applied retrospectively, with the following permitted exceptions:

· Sensitivity disclosures for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided.

IFRS 13 *Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

2.23 Future changes in accounting policies

The financial statements have been prepared based on standards effective for the year ending 31 December 2013. The following issued standards, that are not yet effective, has been assessed not to have an impact of the financial statements:

· IFRS 10 Consolidated Financial Statements
· IFRS 12 Disclosure of Interest in other entities

The Group has not yet considered if IFRS 9 Financial Instrument will impact the financial statements. The mandatory effective date of IFRS 9 is not known, but is expected to be 1 January 2017, at earliest.

Other issued standards and interpretations, that are not yet effective, are not expected to be relevant for the Group, and will not have an impact on the financial statements.

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 2013 or 2012.

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 2013 and 2012. 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 2013 and 2012.

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.

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 520 at 31 December 2013.

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 NOK to USD in 2013, hence the foreign currency risks is primarily with respect to NOK in EMGS ASA. Approximately 97% of the Group's sales are denominated in USD, whilst approximately 40% of costs are denominated in USD in 2013. EMGS also has a NOK 350 million bond loan as of 31 December 2013. 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 NOK exchange rate in 2013 and USD exchange rate in 2012, 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 Company changed its functional currency from NOK to USD 1 January 2013, hence the sensitivity analysis are made on different currencies. The Group's exposure to foreign currency changes on equity and for all other currencies is not material.

	Increase/ decrease in NOK rate	Effect on income/(loss) before tax
2013	+20%	8 064
	-20%	-10 878

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

(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 2013 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 2013						
Interest bearing loans and borrowings	-	4 546	4 615	59 517	-	**68 678**
Trade and other payables	-	44 536	35	-	-	**44 571**
Other financial liabilities	-	128	264	-	-	**392**
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**

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.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest bearing loans and borrowings in the current period.

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 2013 and 31 December 2012.

The Group monitors its capital structure on the basis of a total equity to total assets ratio. As of 31 December 2013 this ratio was 48% (2012:57%). It is the Group's policy that the said ratio shall be above 50% during its current growth phase.

Note 4 — Significant accounting estimates, judgements and assumptions

The preparation of the Group's financial statements requires management to make estimates, judgements 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 judgements 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 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 2013 is 3 452 (2012: 2 286). Additional information is disclosed in Note 22.

Share-based payments

The Group measures the costs of share based options by the reference to the fair value of the equity instruments at the date at which they are granted. 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.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Group is subject to income taxes in several jurisdictions. Given the wide range of international business relationships, differences arising between the actual results and the assumptions made, or future changes in such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequenses of audit by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as the experiense of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Unrecognised tax assets at 31 December 2013 are 69 175 (2012: 66 056).

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 data.

The minimum amortisation policy is described in Note 2.11 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 of disposal and its value in use. The fair value less costs of disposal 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.

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 judgement is required in establishing fair values. The judgement 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 Judgement

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 the vessel owner retains all significant risks and rewards of ownership of these vessels and the Group accounts for the contracts as operating leases.

Development costs

Development costs are capitalised in accordance with accounting policy in Note 2.11 c). Initial capitalisation of costs is based on management's judgement 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 2013, the carrying amount of capitalised development costs is 1 298 (2012: 1 488).

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 2013 mainly denominated in USD while historically the revenues and other transactions in the Company were mainly denominated in NOK. 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 NOK to USD as of 1 January 2012. The presentation currency for the Group is also USD.

Note 5 — Joint operations

The Company and TGS have in 2013 signed an agreement to jointly invest in a 3D EM multi-client survey programme covering 17 blocks in the Hoop area of the Barents Sea. EMGS' share of the investment is, according to the agreement, 70%.

The 3D EM data will be, according to the agreement, sold by both EMGS and TGS. Further, the two companies will split revenues according to their respective investments.

Under the terms of the agreement, EMGS has been given access to TGS' 2D seismic data for survey planning and integration purposes, while TGS has obtained access to 3D EM data to evaluate and plan subsequent multi-client work over the area.

The Group's value of the joint operation's multi-client library as of 31 December 2013 is:

Accumulated cost	**1 409**
Accumulated amortisation	**-1 409**
Net carrying value	**-**

EMGS' share of the revenue from the sale of multi-client library of the joint operation in 2013 is 3 132. In additon, 1 409 is recorded as amortisation on this project in 2013.

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 are 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	2013	2012
Europe, Middle East and Africa	**38 558**	26 905
North and South America	**31 183**	143 716
Asia and the Pacific Ocean	**74 857**	30 210
Total	**144 598**	**200 831**

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

Two single external customers amounted to 10% or more of the Group's total revenues in 2013 (three single external customers in 2012). Total revenues from these customers were in 2013 52 133 and 26 420 (for 2012: 79 616, 64 186 and 24 980).

Note 7 — Charter hire, fuel and crew expenses

Amounts in USD 1 000	2013	2012
Charter hire and crew expenses	**43 197**	44 957
Fuel	**13 282**	12 265
Agent fee	**3 473**	5 046
Withholding tax cost	**2 372**	4 056
Capitalisation of multi-client costs	**-32 056**	-21 269
Other external services	**20 951**	23 767
Total charter hire, fuel and crew expenses	**51 219**	**68 822**

Note 8 — Employee expense

Amounts in USD 1 000	2013	2012
Employee expense		
Salaries	**37 191**	40 871
Social security tax	**4 572**	5 029
Pension costs (Note 22)	**1 802**	2 253
Other payments	**5 605**	4 633
Cost of share based payment (Note 15)	**5 174**	2 290
Total employee expense	**54 344**	**55 076**
Compensation of key management personnel of the Group		
Salary	**1 084**	1 539
Bonus paid in the year	**270**	402
Share options	**635**	331
Pension benefits	**81**	95
Other benefits	**352**	643
Total management remuneration	**2 422**	**3 010**

The average number of man-years employed was 288 in 2013 (2012: 272).

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	2013	2012
Rental and housing expenses	**3 953**	3 869
Consumables and maintenance	**2 000**	2 021
Consultancy fees *	**5 314**	4 683
Travel expenses	**3 640**	3 700
Insurance	**1 087**	1 459
Loss on trade receivable	**-**	-
Marketing	**1 481**	1 061
Other operating expenses	**4 012**	4 285
Total other operating expenses	**21 488**	**21 079**
*** Fees to auditor included in consultancy fees:**		
Statutory audit services	**236**	237
Further assurance services	**88**	65
Tax advisory services	**160**	107
Other non-audit services	**-**	12
Total fees to auditor	**484**	**421**

Note 10 — Research and development costs

Research and development costs consist of 3 292 (2012: 4 105) charged to the income statement as part of operating expenses.

Employee costs capitalised as development amounted to: 2 361 (2012: 1 112).

Note 11 — Financial items

Amounts in USD 1 000	2013	2012
Financial income:		
Interest income on short term bank deposits	**477**	220
Foreign exchange gains related to loans and receivables	**8 908**	23 647
Foreign exchange gains related to liabilities at amortised cost	**4 139**	-
Total financial income	**13 524**	**23 867**
Financial expenses:		
Interest expense on financial leases and bank borrowings	**-112**	216
Interest expense on bond	**4 989**	4 811
Foreign exchange losses related to loans and receivables	**7 265**	25 315
Foreign exchange losses related to liabilities at amortised cost	**-**	4 457
Other financial expenses	**2 327**	350
Total financial costs	**14 469**	**35 149**
Net financial items	**-945**	**-11 282**

The exchange rate effects in 2013 are mainly related to bond loan, accounts receivables and trade payables in NOK 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	2013	2012
Recognised deferred tax asset	**-2 230**	-
Current tax	**4 095**	6 047
Total income tax expense	**1 865**	**6 047**

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	2013	2012
Income before tax	**-13 230**	17 942
Tax at the domestic rate of 28%	**-3 704**	5 024
Non-deductible expenses and other	**586**	2 380
Change in deferred tax asset, not recognised	**3 119**	-7 404
Foreign income taxes	**1 865**	6 047
Tax charge	**1 865**	**6 047**

Note 13 — Deferred tax

Amounts in USD 1 000	2013	2012
Deferred taxes detailed		
Property, plant and equipment	**-658**	-3 842
Inventory	**-57**	0
Pension obligations	**-932**	-1 638
Accrued foreign income taxes and other accruals	**620**	1 770
Loss carried forward	**-71 350**	-62 346
Total deferred tax (asset)/liability	**-72 377**	**-66 056**
Non-recognised deferred tax assets	**69 175**	**66 056**
Net deferred tax assets	**-3 202**	**-**

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. In 2013 , the Group has recognised deferred tax assets in Brazil and Mexico.

Unused tax losses are generated in Brazil, Norway, Mexico, Malaysia and the US. It can be carried forward indefinitely in Brazil, Mexico, 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 2013 and 2012.

In 2013, the Group has made a reclassification of tax receivable in Mexico of 972, to deferred tax asset.

The current tax liabilities of 2 299 mainly consist of accruals for taxes in Mexico (1 092).

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 2012	**197 441 562**	**7 319**	**249 303**	**8 405**	**265 027**
Proceeds from shares issued - 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**
Change in functional currency	-	259	9 835	480	**10 574**
At 1 January 2013	**198 880 055**	**7 641**	**260 452**	**11 190**	**279 283**
Proceeds from shares issued - options exercised	859 500	36	756	-	**792**
Share-based payment	-	-	-	5 173	**5 173**
At 31 December 2013	**199 739 555**	**7 677**	**261 209**	**16 364**	**285 249**

The total authorised number of ordinary shares is 226 768 060 (2012: 225 724 660) with a par value of USD 0.04 (NOK 0.25) per share. All issued shares are denominated in NOK and fully paid.

The largest shareholders as of 31 December 2013:

	Number of ordinary shares	Percentage
Shareholders		
Skagen Global	10 124 112	5.07%
Fidelity Funds	9 947 262	4.98%
Odin Offshore	8 473 631	4.24%
Clearstream Banking S.A.	7 868 361	3.94%
Odin Norge	7 838 224	3.92%
Verdipapirfondet DNB SMB	7 425 000	3.72%
Morgan Stanley & Co Llc	5 589 435	2.80%
Skagen Vekst	5 029 207	2.52%
J.P. Morgan Chase Bank N.A. London	4 579 314	2.29%
Verdipapirfondet DNB Norge (IV)	4 472 746	2.24%
JP Morgan Clearing Corp.	3 996 807	2.00%
Statoil Pensjon	3 783 655	1.89%
UBS AG	3 340 917	1.67%
Skagen Global II	3 282 333	1.64%
Sundt As	3 100 000	1.55%
VPF Nordea Kapital	2 615 655	1.31%
Momentum Investments Inc	2 500 000	1.25%
Euroclear Bank S.A./N.V. ('BA')	2 496 861	1.25%
Sportsmagasinet AS	2 206 588	1.10%
Bruheim	2 205 088	1.10%
Other	98 864 359	49.50%
Total	**199 739 555**	**100.00%**

Note 15 — Share based payment transactions

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	2013	2012
Expense arising from share based payment transactions	**5 174**	2 290

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 2013 and 2012:

	2013	2012
Expected volatility	**60%**	60%
Risk free interest rate	**1.45%**	1.87%
Expected life of options (years)	**4**	4
Weighted average share price (USD)	**1.50**	3.43

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:

	2013		2012	
	Average exercise price in USD per share	Options	Average exercise price in USD per share	Options
At 1 January	**2.45**	**8 329 507**	**1.00**	**5 107 000**
Granted	**1.52**	**4 172 000**	3.04	5 425 000
Exercised	**0.94**	**859 500**	0.98	1 438 493
Forfeited	**2.42**	**1 017 000**	2.06	764 000
Expired	**3.05**	**46 500**	-	-
Cancelled	**-**	**-**	-	-
At 31 December	**2.02**	**10 578 507**	**2.45**	**8 329 507**
Exercisable at 31 December	**1.91**	**4 411 907**	**1.85**	**3 074 007**

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

2012

	In USD per share	Options
2013	2.42 and 4.67	**46 500**
2014	1,04	**537 000**
2015	3.59, 5.39 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, 3.25 and 3.47	**4 570 000**
		8 329 507

2013

	In USD per share	Options
2014	0.94	**500**
2015	4.90	**20 000**
2016	0.70	**658 000**
2017	0.94	**1 359 000**
2018	1.91 and 2.25	**639 007**
2019	2.55, 2.96 and 3.15	**4 080 000**
2020	1.26, 1.39 and 1.47	**3 822 000**
		10 578 507

The weighted average remaining contractual life for the share options outstanding as at 31 December 2013 is 5.11 years (2012: 5.11 years).

The weighted average fair value of options granted during the year was USD 0.71 (2012: 1.10).

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 2012						
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**
Year ended 31 December 2013						
Opening carrying value	1 920	1 255	1 702	14 126	**19 003**	14 422
Additions	12	-	-	26 319	**26 331**	-
Transferred from assets under construction to intangible assets	721	-	-	-	**721**	-
Amortisation charge	-1 113	-940	-205	-12 337	**-14 595**	-
Closing carrying value	**1 540**	**315**	**1 497**	**28 108**	**31 460**	14 422
At 31 December 2013						
Accumulated cost	11 152	2 321	3 667	79 556	**96 696**	14 422
Accumulated amortisation	-9 612	-2 006	-2 170	-51 448	**-65 236**	-
Net carrying value	**1 540**	**315**	**1 497**	**28 108**	**31 460**	**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 2013 or 2012, as no indication of impairment has been identified. Multi-client revenue recognised in 2013 amounted to 33 314 (2012: 24 713).

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

The lease agreements for the two vessels EM Leader and EM Express with Euro Trans Skips AS were a part of the acquistion of OHM in 2011. The vessels will, at no standby cost, be ready to mobilise on 3-, 6- or 12-month charters. These intangible assets are depreciated over the charter periods (42 and 30 months).

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

	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 2013. 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 2013. The fair value of equity at 31 December is 256 854 , while the book value of equity is 102 217. 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 2012					
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	1 006	1 088	219	**2 313**	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	497	303	7	**807**	-291
Closing carrying value	**27 447**	**2 517**	**2 269**	**32 233**	**10 893**
At 31 December 2012					
Accumulated cost	99 162	17 566	11 541	**128 269**	11 184
Translation differences accumulated cost	4 325	511	518	**5 354**	-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**
Year ended 31 December 2013					
Opening carrying value	27 447	2 517	2 269	**32 233**	10 893
Additions	3 213	738	58	**4 009**	15 723
Accumulated costs on disposals	-21	-	-	**-21**	-
Transfer from asset under construction to property, plant and equipment	3 431	3 264	-	**6 695**	-7 416
Depreciation charge	-12 698	-1 808	-732	**-15 238**	-
Accumulated depreciation on disposals	5	-	-	**5**	-
Translation differences	-	-	-	**-**	-
Closing carrying value	**21 377**	**4 711**	**1 595**	**27 683**	**19 200**
At 31 December 2013					
Accumulated cost	110 110	22 079	12 117	**144 306**	19 200
Accumulated depreciation	-88 733	-17 368	-10 522	**-116 623**	-
Net carrying value	**21 377**	**4 711**	**1 595**	**27 683**	**19 200**

Finance leasing included in property, plant and equipment:

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**
2013				
Cost of capitalised finance leases	-	721	-	**721**
Accumulated depreciation	-	-481	-	**-481**
Net carrying value	**-**	**240**	**-**	**240**

The amount of property, plant & equipment pledged as security for liabilities has a net carrying value of 240 as of 31 December 2013 (2012: 1721).

	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	2013	2012
Prepayments	**5 317**	4 832
Receivables VAT and taxes	**7 679**	8 161
Deferred mobilisation expenses	**2 978**	1 669
Other receivables	**1 164**	299
Total other receivables	**17 138**	**14 961**

Note 19 — Spare parts, fuel, anchors and batteries

Amounts in USD 1 000	2013	2012
Equipment components and parts, at cost	**8 405**	7 276
Anchors and batteries, at cost	**1 824**	2 562
Fuel, at cost	**2 761**	3 036
Total spare parts, fuel, anchors and batteries	**12 990**	**12 874**

Note 20 — Trade receivables

Amounts in USD 1 000	2013	2012
Accounts receivable	**27 717**	25 185
Accrued revenues	**3 803**	21 815
Total trade receivables	**31 520**	**47 000**

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 2013 EMGS did not find it necessary to make any provision for doubtful trade receivables (2012: 0). The 771 that is more than 120 days due is taxes withheld from payment from a customer in India. The amount is expected to be paid from the tax authorities in India.

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
2013	27 717	26 450	497	-	-	-	771

Note 21 — Cash and cash equivalents

Amounts in USD 1 000	2013	2012
Cash	**55 305**	39 259
Restricted cash current	**1 240**	8 543
Total cash and cash equivalents	**56 545**	**47 802**

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 is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon"). The Company's pension arrangements fulfill the requirements of the law.

The employees employed in Norway are covered by the Company's defined benefit scheme. Through this scheme the member will be guaranteed a certain level on their pension payments based on their last salary. The scheme is insured by an insurance company. The level of the pension payment is dependent on the number of years the employee has been with the company and the obtained level of salary when working. Parts of the pension payment is paid by the National Insurance (Folketrygden) and is calculated based on the base amount (Folketrygdens grunnbeløp) which is endorsed yearly by the Norwegian Parliament.

As of 31 December 2013 there are 146 active and 1 retired people covered by the pension scheme (2012: 145 active and 1 retired).

Amounts in USD 1 000	2013	2012
Net employee defined benefit liability:		
Employee benefit obligation	**3 452**	2 286

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated statement of financial position:

Amounts in USD 1 000	2013	2012
Net benefit expense (recognised as employee expenses in consolidated income statement):		
Current service cost	**1 509**	1 915
Interest cost	**54**	18
Administration costs	**15**	41
Social security tax	**223**	278
Net benefit expense	**1 802**	**2 253**

Changes in the defined benefit obligation and fair value of plan assets:

Amounts in USD 1 000	2013	2012
Defined benefit obligation at 1 January	**7 819**	8 335
Service cost	**1 740**	2 233
Net interest	**62**	20
Sub-total included in profit or loss	**1 802**	**2 253**
Benefits paid	**-20**	-
Actuarial changes arising from changes in demographic assumptions	**410**	-2 386
Actuarial changes arising from changes in financial assumptions	**460**	352
Experience adjustments	**-193**	-1 274
Exchange differences	**-98**	-401
Sub-total included in OCI	**560**	-3 709
Social security tax	**-230**	47
Exchange differences	**-502**	635
Defined benefit obligation at 31 December	**9 449**	7 560

Amounts in USD 1 000	2013	2012
Fair value of plan assets at 1 January	**5 124**	3 738
Net interest	**224**	188
Sub-total included in profit or loss	**224**	**188**
Benefits paid	**-20**	-
Return on plan assets (excluding amounts included in net interest expense)	**-68**	-58
Experience adjustments	**-428**	-622
Exchange differences	**20**	45
Sub-total included in OCI	**-496**	-635
Contributions by employer	**1 933**	1 630
Social security tax	**-239**	-
Exchange differences	**-550**	353
Fair value of plan assets at 31 December	**5 997**	5 274

Amounts in USD 1 000	2013	2012
Defined benefit obligation included in OCI	**560**	-3 709
Fair value of plan assets included in OCI	**-496**	-635
Total included in OCI	**1 055**	**-3 075**
Defined benefit obligation at 31 December	**9 449**	7 560
Fair value of plan assets at 31 December	**5 997**	5 274
Employee benefit obligation at 31 December	**3 452**	2 286

The principal actuarial assumptions used are as follows:

	2013	2012
Discount rate*	**4.00%**	3.90%
Expected future salary increases	**3.75%**	3.50%
Expected rate of pension increases	**3.50%**	3.25%
Expected rate of regulation of pensions under payment	**0.60%**	0.20%
Social security tax - rate	**14.10%**	14.10%
Life expectation for pensioners at the age of 65:		
Male	**20.4**	17.4
Female	**23.2**	20.7

*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 represents a deep market on the relevant terms.

The change in actuarial assumptions in 2013 is in accordance with guidance published by the Norwegian Accounting Standards Board in January 2014.

Assumptions regarding future mortality experience are based on public statistics. The mortality table, K2013, is based on best estimates for the population in Norway.

Plan assets comprise:

	2013	2012
Shares	**6.80%**	9.20%
Bonds and money market	**39.00%**	33.90%
Hold to maturity bonds	**35.20%**	36.80%
Real estate	**14.30%**	18.30%
Other	**4.70%**	1.80%
Total	**100.00%**	**100.00%**

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is as shown below:

Assumptions	Discount rate		Expected salary increases		Expected rate of pension increases		Average turnover	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on defined benefit obligation	-2 514	2 490	1 766	-2 439	-1 069	735	596	-951
Impact on net pension cost	-793	376	368	-890	-344	174	164	-258

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Expected contributions to the defined benefit plan for the year ending 31 December 2014 are 1 689.

The average duration for the defined benefit plan obligation at the end of the reporting period is 20.2 years (2012: 20.4 years)

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. The contributions recognised as employee expenses equalled 1 343 and 991 in 2013 and 2012 respectively.

Note 23 — Borrowings

Amounts in USD 1 000	Interest rate	Maturity	2013	2012
Non-current				
NOK 350 000 000 bond	3 month NIBOR + 6.00%	27 June 2016	**56 364**	-
NOK 250 000 000 bond	3 month NIBOR + 7.00%	26 May 2014	**-**	44 803
Finance lease liabilities	3 month NIBOR + 3.50% and 7.60%	2-3 years	**264**	787
Total			**56 628**	**45 590**
Current				
Finance lease liabilities	3 month NIBOR + 3.50% and 7.60%	Up to 1 year	**128**	1 358
Total			**128**	**1 358**
Total borrowings			**56 756**	**46 948**

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. In connection with the issuing of the NOK 350 000 000 bond in June 2013, the Company repurchased the NOK 250 000 000 bond.

The bond was unsecured.

NOK 350 000 000 bond

On 26 June 2013, EMGS secured a NOK 350 million bond bearing an interest at 3 months NIBOR + 6.00% 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	2013	2012
6 months or less	**56 756**	46 948
6-12 months	**-**	-
1-5 years	**-**	-
Over 5 years	**-**	-
Total	**56 756**	46 948

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	2013	2012
Between 1 and 3 years	**56 628**	45 443
Between 4 and 5 years	**-**	147
Over 5 years	**-**	-
Total	**56 628**	45 590

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

Amounts in USD 1 000	Carrying amounts		Fair values	
	2013	2012	2013	2012
NOK 350 000 000 bond	**56 364**	-	**56 364**	-
NOK 250 000 000 bond	**-**	44 803	**-**	44 803
Leasing liabilities	**264**	787	**264**	787

The fair value measurements are calculated using observable inputs (level 2).

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

Amounts in USD 1 000	2013	2012
USD denominated	-	-
NOK denominated	56 756	46 948
Total	**56 756**	46 948

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

	2013	2012
NOK 350 000 000 bond	8.97%	-
NOK 250 000 000 bond	-	11.53%
Leasing liabilities	7.58%	7.80%

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 15 942 (2012: 9 616).

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 7 164 as provision per 31 December 2013 (2012: 3 811).

Note 26 — Other short term liabilities

Amounts in USD 1 000	2013	2012
Accrued expenses	6 628	5 909
Holiday pay	2 809	3 264
Social security taxes and other public duties	12 426	8 839
Other short term liabilities	4 432	1 831
Total other short term liabilities	**26 295**	**19 843**

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	2013	2012
Finance lease liabilities – minimum lease payments:		
No later than 1 year	**157**	1 480
After 1 year and no more than 5 years	**300**	852
After more than 5 years	**-**	-
Total minimum lease payments	**457**	**2 332**
Future finance charges on finance leases	**-65**	-187
Present value of finance lease liabilities	**392**	**2 145**
The present value of finance lease liabilities is as follows:		
No later than 1 year	**128**	1 358
After 1 year and no more than 5 years	**264**	787
After more than 5 years	**-**	-
Total present value of finance lease liabilities	**392**	**2 145**
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 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	2013	2012
Office premises rental guarantees	**215**	441
Guarantees on client contracts	**19 867**	16 661
Total guarantees	**20 082**	**17 102**

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	2013	2012
No later than 1 year	**33 784**	26 524
After 1 year and no more than 5 years	**33 915**	21 856
After more than 5 years	**2 909**	3 878
Total operating lease commitments	**70 608**	**52 258**

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	2013	2012
Charter hire	**37 022**	38 754
Office premises	**3 108**	2 835
Total	**40 130**	**41 589**

Note 30 — Legal claims

EMGS is involved in the following legal processes:

A claim has been filed from a former contractual partner against the subsidiary Servicios Geologicos Electromagneticos do Brazil Ltda. The claim is from a former sales representative claiming the right to a commission for certain sales made by Servicios Geologicos Electromagneticos do Brazil Ltda. The parties are engaged in discussions to resolve the issue and it is therefore not appropriate to disclose more detailed information about the claims nor the solutions currently discussed. Based on an evaluation of the issue, the Group has made appropriate accruals.

EMGS has taken out patent infringement claims against PGS ASA and two of its subsidiaries for infringement of one of the EMGS patents in Norway, UK and Ireland. PGS has warned that they will file counterclaims against EMGS. The case in an early phase and the Group cannot indicate when it will be decided. No accruals are made for this.

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	2013	2012
Income/(loss) attributable to equity holders of the Company	**-15 095**	11 895
Basic earnings per share	**-0.08**	**0.06**
Diluted earnings per share	**-0.08**	**0.06**
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands)	**199 047**	198 317
Effect of dilutive potential shares:		
Share options	**-**	833
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands)	**199 047**	199 150

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 5% (2012: 7%) commission on each PEMEX contract obtained by the Company. EMGS' Charman of the Board, Bjarte H. Bruheim, holds 24.5% of the shares in BKCCA.

The Company also buys services from Fedem Technology AS (Fedem) where EMGS' CEO, Roar Bekker, holds the position as Chairman of the Board. Fedem offers a.o. engineering services to the oil and gas industry.

The following transactions were carried out with related parties:

Amounts in USD 1 000	2013	2012
Purchases of goods and services		
BKCCA	**1 321**	4 764
Fedem	**76**	-

Year end balances arising from purchases of goods:

Amounts in USD 1 000	2013	2012
Payables to related parties:		
BKCCA	**747**	90
Fedem	**-**	-

Note 33 — Investment in subsidiaries

Company	Share ownership/ voting rights 2013	Share ownership/ voting rights 2012	Equity 31 Dec 2013	Equity 31 Dec 2012	Location
EMGS Americas 1 AS	100%	100%	-144	-216	Trondheim, Norway
EMGS Americas 2 AS	100%	100%	10	14	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100%	100%	184	23	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	100%	100%	5 423	5 720	Rio de Janeiro, Brasil
EMGS Americas Inc	100%	100%	-1 690	-1 699	Delaware, USA
EMGS International B.V.	100%	100%	-115	-83	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	1%/100%	1%/100%	56	-738	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100%	100%	-19	251	Kuala Lumpur, Malaysia
Global EMGS Nigeria Ltd	35%/100%	35%/100%	-288	-278	Lagos, Nigeria
EMGS Australia Pty Ltd	100%	100%	101	86	Perth, Australia
EMGS Global AS	100%	100%	1 849	464	Trondheim, Norway
EMGS Sea Bed Logging Mexico S.A. de C.V.	100%	100%	20	7 655	Col. Del Valle, Mexico
EMGS Shipping Mexico S. de R.L. de C.V.	49%/100%	49%/100%	-85	-426	Col. Del Valle, Mexico
EMGS Services Mexico S.A. de C.V.	99%	99%	51	-80	Col. Del Valle, Mexico
EMGS Labuan Ltd	100%	100%	714	487	Labuan, Malaysia
EMGS Asia Pacific Labuan Ltd	100%	0%	(296)	-	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%	12 567	13 884	Trondheim, Norway
Ohm Ltd	100%	100%	2 707	2 434	Aberdeen, Great Britain
Ohm Surveys SDN BHD	100%	100%	-296	163	Kuala Lumpur, Malaysia
EM Multi-client AS	100%		-	5	Trondheim, Norway
Electromagnetic Geoservices Canada Inc	100%	-	-	-	British Columbia, Canada

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 control over these companies. Side agreements shows that EMGS has all the rights and obligations of 100 % ownership.

Note 34 — Events after the reporting period

Agreement with North Energy

On 21 January, EMGS announced that the Company signed an agreement with North Energy worth NOK 100 million. The agreement includes a sale of EMGS' full 3D EM multi-client data library in the Barents Sea for approximately KUSD 12 097 and sale of services related to EM inversion and integrated interpretation for approximately KUSD 2 419. In addition, North Energy has committed to pre-funding of approximately KUSD 1 613 for a 2014 Barents Sea program. The payment for the 3D EM data will be in the form of a convertible bond issued by North Energy with a strike price of NOK 4.15, coupon of 6% and with a maturity of 6 months. At maturity, unless converted, EMGS will receive NOK 75 million plus interest. The remaining part of the payment of NOK 25 million will be settled in cash.

EMGS will participate with NOK 20 million in North Energy's private placement totaling NOK 285 million.

The agreement confirms the substantial value in EMGS' 3D EM library in the Barents Sea. Further, the strategic partnership with North Energy, strengthened by EMGS' investment, provides EMGS with a unique opportunity to implement EM in North Energy's exploration workflow.

Electromagnetic Geoservices ASA

Income statement

Year ended 31 December

Amounts in NOK 1 000	Note	2013	2012
Operating revenues			
Contract sales	1, 11	**849 996**	845 866
Multi-client sales		**176 949**	135 475
Total operating revenues		**1 026 945**	**981 340**
Operating expenses			
Charter hire, fuel and crew expenses	4	**259 812**	349 005
Employee expenses	5, 6	**291 995**	283 127
Depreciation and ordinary amortisation	7	**94 577**	77 255
Multi-client amortisation	7	**73 328**	74 375
Other operating expenses		**122 181**	130 763
Total operating expenses		**841 894**	**914 525**
Operating income		**185 051**	**66 816**
Financial income and expenses			
Financial income	16	**83 633**	137 234
Financial expenses	16	**45 049**	93 205
Net financial items		**38 584**	**44 029**
Income (loss) before tax		**223 635**	**110 845**
Income tax expenses	8	**-**	458
Net income (loss) for the year		**223 635**	**110 387**

Electromagnetic Geoservices ASA

Balance sheet

As at 31 December

Amounts in NOK 1 000	Note	2013	2012
Non-current assets			
Intangible assets	7	**120 082**	75 350
Property, plant and equipment	7, 9	**153 636**	177 681
Assets under construction		**108 970**	58 943
Investments in subsidiaries	10	**118 137**	118 137
Total non-current assets		**500 825**	**430 111**
Current assets			
Spareparts, fuel, anchors and batteries	3	**62 251**	66 643
Trade receivables	9, 11, 12	**45 616**	188 411
Receivables group companies	12	**504 072**	98 914
Other receivables		**61 373**	19 846
Cash and cash equivalents	13	**258 119**	161 113
Restricted cash	13	**7 588**	47 581
Total current assets		**939 019**	**582 508**
Total assets		**1 439 844**	**1 012 619**

Electromagnetic Geoservices ASA

Balance sheet

As at 31 December

Amounts in NOK 1 000	Note	2013	2012
Equity			
Paid-in capital			
Share capital	14,15	**49 934**	49 720
Share premium	14,15	**886 563**	882 031
Other paid-in capital	14,15	**94 552**	63 583
Total paid-in capital		**1 031 049**	**995 334**
Retained earnings			
Other equity (uncovered loss)	15	**-185 541**	-402 278
Total retained earnings		**-185 541**	**-402 278**
Total equity		**845 508**	**593 056**
Liabilities			
Non-current liabilities			
Employee benefit obligations	5	**21 126**	12 283
Provisions	18	**43 843**	21 214
Borrowings	7,17	**346 559**	253 771
Total non-current liabilities		**411 528**	**287 268**
Current liabilities			
Trade payable		**92 562**	46 891
Current tax liability	8	**11 910**	4 155
Public taxes and duties payable		**18 849**	26 330
Other current liabilities		**58 701**	47 359
Borrowings		**786**	7 561
Total current liabilities		**182 808**	**132 295**
Total liabilities		**594 336**	**419 563**
Total equity and liabilities		**1 439 844**	**1 012 619**

Electromagnetic Geoservices ASA

Cash flow statement

Year ended 31 December

Amounts in NOK 1 000	2013	2012
A) Cash flow from operating activities		
Funds sourced from operations *)	**443 952**	303 110
Changes in inventories, accounts receivable and accounts payable	**192 858**	-205 960
Changes in other accrual items	**-403 597**	36 612
Net cash flow from operating activities	**233 213**	**133 762**
B) Cash flow from investing activities		
Purchase of property, plant and equipment	**-238 618**	-201 473
Investment in subsidiaries	**-**	-30
Net cash flow from investing activities	**-238 618**	**-201 503**
C) Cash flow from financial activities		
Proceeds from equity paid-in	**4 746**	7 853
Proceeds from bond offering	**343 350**	-
Settlement of bond loan	**-250 811**	-
Payment of interest on bonds and financial leases	**-34 868**	-32 039
Net cash flow from financial activities	**62 417**	**-24 186**
A+B+C) Net change in cash and cash equivalents	**57 012**	-91 928
Cash and cash equivalents at 01.01	**208 694**	300 622
Cash and cash equivalents at 31.12	**265 706**	**208 694**
Calculation of cash and cash equivalents		
Cash and cash equivalents	**258 119**	161 113
Restricted cash	**7 588**	47 581
Cash and cash equivalents at 31.12	**265 707**	**208 694**
***) Calculation of funds sourced from operations**		
Net profit (loss) before income taxes	**223 635**	110 845
Depreciation and amortisation	**167 906**	151 629
Income tax expense	**-**	-458
Option cost	**30 969**	13 200
Actuarial gains/(losses)	**-6 899**	-
Amortisation of interest	**28 342**	27 894
Profit (loss) disposal property, plant and equipment	**-**	-
Funds sourced from operations	**443 952**	**303 110**

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

The Company operates a defined benefit plan. The scheme is funded through payments to an insurance company. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses and the return on plan assets, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through equity in the period they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The net pension cost for the period is classified as an 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	2013	2012
Geographical distribution		
Europe, Middle East and Africa	**213 563**	133 946
North and South America	**391 291**	684 940
Asia and Pacific Ocean	**422 090**	162 454
Total	**1 026 945**	**981 340**

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

Note 2 — Interest in joint operations

The Company and TGS have in 2013 signed an agreement to jointly invest in a 3D EM multi-client survey programme covering 17 blocks in the Hoop area of the Barents Sea.

The 3D EM data will be, according to the agreement, sold by both EMGS and TGS. Further, the two companies will split revenues according to their respective investments.

Under the terms of the agreement, EMGS has been given access to TGS' 2D seismic data for survey planning and integration purposes, while TGS has obtained access to 3D EM data to evaluate and plan subsequent multi-client work over the area.

The Company's value of the joint operation's multi-client library as of 31 December 2013 is:

Accumulated cost	8 284
Accumulated amortisation	-8 284
Net carrying value	**-**

EMGS' share of the revenue from the sale of multi-client library of the joint operation in 2013 is 18 414. In additon, 8 284 is recorded as amortisation on this project in 2013.

Note 3 — Spareparts, fuel, anchors and batteries

Amounts in NOK 1 000	2013	2012
Inventory type		
Equipment, components and parts	**47 223**	40 502
Anchors and batteries	**7 989**	13 265
Fuel	**7 038**	12 876
Total	**62 251**	**66 643**

Note 4 — Operating leases

Amounts in NOK 1 000	2013	2012
Operating leases recognised as expense in the period		
Charter hire	**218 826**	225 095
Office premises	**11 291**	9 729
Total	**230 117**	**234 824**

Note 5 — Pensions

The Company is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon"). The Company's pension arrangements fulfil the requirements of the law.

The employees employed in Norway are covered by the Company's defined benefit scheme. Through this scheme the member will be guaranteed a certain level on their pension payments based on their last salary. The scheme is insured by an insurance company. The level of the pension payment is dependent on the number of years the employee has been with the company and the obtained level of salary when working. Parts of the pension payment is paid by the National Insurance (Folketrygden) and is calculated based on the base amount (Folketrygdens grunnbeløp) which is endorsed yearly by the Norwegian Parliament. As of 31 December 2013 there are 146 active and 1 retired people covered by the pension scheme (2012: 145 active and 1 retired).

The Company applied IAS 19R retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated.

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss. Expected returns on plan assets are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised.

The Company has previously used the "corridor approach", which allowed the Company to not recognise changes resulting actuarial gains or losses as long as these were within in a pre-defined bandwidth when accounting for actuarial gains and losses. The removal of the "corridor mechanism" implies that actuarial gains and losses shall be recognised in OCI in the current period. The gain within the corridor stood at 2 718 as of 1 January 2012, and it has been dissolved, and the pension obligation decreased by the same amount, whereas equity increased by 2 718.

The amended standard impacts the net benefit expense as the expected return on plan assets are calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The difference between actual return of assets and the estimated return is recognised for in OCI. The pension expense under previous standard was 13 114 in 2012. No changes are made in the 2012 pension expense, as the changes are immaterial. Under the new standard, changes in actuarial assumptions recognised under OCI in 2012 is 17 557. The pension obligation as of 31 Desember 2012 decreased from 32 558 to 12 283. Since the Company has unrecognised deferred tax assets, no tax obligation has been recognised as a result of the implementation which these will be deducted from the asset. The impact on equity for the year ended 31 December 2013 was -6 899.

Components of net pension expense including social security tax:

Amounts in NOK 1 000	2013	2012
Service cost and benefit changes cost	**10 228**	12 996
Financial cost	**365**	118
Net pension expense	**10 593**	**13 114**

Reconciliation of net employee benefit obligation recognised in the balance sheet including social security tax:

Amounts in NOK 1 000	2013	2012
Net employee benefit obligation 31 December last year	**12 283**	30 267
Effect of transition to IAS 19R	**-**	-2 718
Net employee benefit obligation 1 January	**12 283**	**27 549**
Net pension expense	**10 593**	13 114
Employer contribution	**-8 649**	-10 823
Remeasurements loss/(gain)	**6 899**	-17 557
Net employee benefit obligation 31 December	**21 126**	**12 283**
Principal assumptions:		
Discount rate*	**4.00%**	3.90%
Expected future salary increases	**3.75%**	3.50%
Expected adjustment in National Insurance base rate	**3.50%**	3.25%
Expected rate of pension increases	**0.60%**	0.20%
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 represents a deep market on the relevant terms.

Note 6 — Remuneration

The average number of employees during 2013 was 190.

Amounts in NOK 1 000	2013	2012
Employee expenses:		
Salaries	**214 529**	223 831
Payroll tax	**19 937**	23 083
Pension costs	**10 593**	13 114
Other payments	**46 936**	23 099
Total	**291 995**	283 127

Executive Management remuneration

Amounts in NOK 1 000		Salaries	Bonus	Share options*	Pension benefit	Other benefits**	Total remuneration
Executive Management							
Roar Bekker, CEO	2013	2 492	585	1 488	176	504	**5 245**
Svein T. Knudsen, CFO	2013	2 090	624	1 246	151	139	**4 250**
David Neser, COO	2013	1 731	376	999	130	1 496	**4 732**
Ole A. Heggheim, Executive VP Strategic Development	2013	1 212	-	382	82	6	**1 682**

*Share options are costs posted as an expense under the Company's option program in 2013.

**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 2013 was 0.

Payment after termination of employment

The CEO has a severance agreement which pays 18 months salary and benefits after termination of the contract, while the other members of the Executive Management are entitled to 12 months 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	3 251	-	-	546	-	-	**3 797**
Jeffrey Harris, Director	200	-	-	-	-	-	**200**
Maria Moræus Hanssen, Director	121	-	-	-	-	-	**121**
Berit Svendsen, Director	207	-	-	-	-	-	**207**
Stig Eide Sivertsen, Director	338	-	-	-	-	-	**338**
Christel Brønstad, Employee's representative	-	-	-	-	-	-	**-**
Svein Ellingsrud, Employee's representative	-	-	-	-	-	-	**-**

The amounts listed under Directors' fee have been expensed in 2013.

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	745 000	400 000	-	-	185 000	5.77	960 000	10.55	4.96
Svein T. Knudsen	335 000	300 000	-	-	-	-	635 000	12.56	5.37
David Neser	200 000	300 000	-	-	-	-	500 000	11.64	5.76
Ole A. Heggheim	-	200 000	-	-	-	-	200 000	8.50	6.32
Board of Directors									
Bjarte H. Bruheim	350 000	-	-	-	100 000	5.77	250 000	19.30	5.13
Christel Brønstad	10 000	-	-	-	-	-	10 000	12.24	4.08
Svein Ellingsrud	52 000	100 000	-	-	-	-	152 000	12.35	5.82

A - average exercise price for options exercied during 2013.
B - average exercise price for number of options by 31 December 2013.

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	2013	2012
Auditor expenses		
Statutory audit services (excl VAT)	**1 200**	1 200
Tax advisory services (excl VAT)	**804**	91
Further assurance services	**519**	377
Other non-audit services	**-**	6
Total auditor expenses	**2 523**	**1 674**

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 2013	753 360	26 416	54 903	263 730	**1 098 409**
Purchases	63 291	-	4 074	121 321	**188 686**
Disposals	-125	-	-	-	**-125**
Acquisition cost at 31 December 2013	816 526	26 416	58 977	385 051	**1 286 970**
Accumulated depreciation 1 January 2013	575 679	16 142	44 437	209 120	**845 378**
Depreciation/amortisation for the year	87 242	1 142	6 193	73 328	**167 905**
Disposals	-31	-	-	-	**-31**
Accumulated depreciation 31 December 2013	662 890	17 284	50 630	282 448	**1 013 252**
Net carrying value at 31 December 2013	**153 636**	**9 132**	**8 347**	**102 603**	**273 718**
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 2013 amounted to 43 145 (2012: 119 425)

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	2013	2012
Capitalised in the balance sheet 31 December	**4 015**	35 416
Accumulated depreciation	**-2 677**	-25 832
Net carrying value	**1 338**	**9 584**
Depreciation	**1 599**	7 618

	2013		2012	
Amounts in NOK 1 000	Nominal value	Present value	Nominal value	Present value
Leases due within 12 months	**963**	**786**	8 244	7 561
Leases due within the next 13 - 36 months	**1 838**	**1 617**	4 820	4 381
Remaining debt on leasing contracts 31 December	**2 801**	**2 403**	**13 064**	**11 942**

Amounts in NOK 1 000	2013	2012
Specification of R&D expenses		
External expenses	**4 628**	4 526
Materials	**2 187**	701
Internal time	**9 685**	18 648
Total R&D expenses	**16 500**	**23 875**

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	2013	2012
Taxes base specification		
Profit before tax	**223 635**	110 845
Permanent differences	**31 164**	11 984
Changes in temporary differences	**7 290**	-7 360
Tax expenses abroad, paid	**-**	699
Taxable profits before utilisation of unused tax losses	**262 089**	**116 168**
Tax losses carried forward	**-262 089**	-116 168
Taxable profit (this year tax base)	**-**	-
Income tax expenses		
Non-creditable foreign income taxes	**-**	458
Total income tax expense	**-**	**458**
Temporary differences		
Fixed assets	**-141 819**	-132 151
Inventory	**-1 298**	-
Provisions tax liability abroad and other accruals	**-11 910**	-4 155
Pension obligations	**-21 126**	-32 558
Tax losses carried forward	**-1 005 558**	-1 267 643
Total temporary differences	**-1 181 711**	**-1 436 506**
Non-recognised deferred tax asset	**-330 879**	**-402 222**

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	223 635	62 618
Permanent difference	-	8 725
Change in deferred tax assets, not recognised	-	-71 343
Non-creditable foreign income taxes	-	-
Calculated tax	-	**-**
Effective tax rate in %	-	0.0 %

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
2013	-	262 085	-262 085
Total	**1 446 148**	**440 590**	**1 005 558**

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 2013.

Amounts in NOK 1 000	2013	2012
Collaterals		
Debts secured by pledge	**-**	-

Amounts in NOK 1 000	2013	2012
Pledged assets		
Accounts receivable	**120 037**	54 586
Cash and equivalents	**1 317**	40 794
Assets held under finance leases	**1 338**	9 584
Total carrying value of pledged assets	**122 692**	**104 964**

Note 10 — Investment in subsidiaries

Company	Share ownership/ voting rights 2013	Profit/Loss 2013	Equity 31 Dec 2013	Location
EMGS Americas 1 AS	100%	598	-880	Trondheim, Norway
EMGS Americas 2 AS	100%	-13	62	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100%	1 631	1 124	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brazil LTDA	99%	-1 879	33 268	Rio de Janeiro, Brazil
Global emgs Nigeria Ltd	35%	-60	-1 762	Lagos, Nigeria
EMGS Americas Inc	100%	54	-10 347	Delaware, USA
Electromagnetic Geoservices Malaysia Sdn Bhd	1%	4 620	152	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100%	-1 505	-46	Kuala Lumpur, Malaysia
EMGS International BV	100%	-158	-695	Amsterdam, The Netherlands
EMGS Australia Pty Ltd	100%	160	609	Perth, Australia
EMGS Global AS	100%	15 192	11 613	Trondheim, Norway
EMGS Shipping Mexico S. de R.L de C.V.	49%	2 004	-603	Col. Del Valle, Mexico
EMGS Sea Bed Logging Mexico S.A. de C.V.	100%	-8 743	480	Col. Del Valle, Mexico
EMGS Labuan Ltd	100%	1 337	4 314	Labuan, Malaysia
EMGS Asia Pacific Labuan Ltd	100%	-1 738	-1 738	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%	-17	75 755	Trondheim, Norway
EM Multi-client AS	100%	-5	-	Trondheim, Norway
Total		**11 477**	**111 305**	

Note 11 — On-going projects

Part of accounts receivable which is recognised in 2013, but not invoiced per 31 December 2013 amounts to 6 189 (2012: 52 795). Deferred revenue as of 31 December 2013 amounts to 12 132 (2012: 467).

The Company does not expect any loss on contracts in 2013.

Note 12 — Receivables

There has not been made any provision for doubtful receivables per 31 December 2013 (2012: 0)

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

Amounts in NOK 1 000	2013	2012
Intercompany balances with group companies		
Trade receivables	-	-
Other receivables	504 072	98 914
Total intercompany receivables	**504 072**	**98 914**
Short term liabilities	-	-
Total intercompany liabilities	**-**	**-**

Note 13 — Bank deposits

Restricted cash as of 31 December 2013:

Amounts in NOK 1 000	Short term	Long term	Total
Employee tax	6 271	-	6 271
Guarantees	1 317	-	1 317
Total restricted cash	**7 588**	-	**7 588**

Note 14 — Share capital and Shareholder information

The Company's share capital consists of 199 739 555 shares at a par value of NOK 0.25, giving a total share capital of 49 935.

The largest shareholders as of 31 December 2013:

	Number of ordinary shares	Percentage
Shareholders		
Skagen Global	10 124 112	5.07%
Fidelity Funds	9 947 262	4.98%
Odin Offshore	8 473 631	4.24%
Clearstream Banking S.A.	7 868 361	3.94%
Odin Norge	7 838 224	3.92%
Verdipapirfondet DNB Smb	7 425 000	3.72%
Morgan Stanley & Co Llc	5 589 435	2.80%
Skagen Vekst	5 029 207	2.52%
J.P. Morgan Chase Bank N.A. London	4 579 314	2.29%
Verdipapirfondet DNB Norge (IV)	4 472 746	2.24%
JP Morgan Clearing Corp.	3 996 807	2.00%
Statoil Pensjon	3 783 655	1.89%
UBS AG	3 340 917	1.67%
Skagen Global II	3 282 333	1.64%
Sundt AS	3 100 000	1.55%
VPF Nordea Kapital	2 615 655	1.31%
Momentum Investments Inc	2 500 000	1.25%
Euroclear Bank S.A./N.V. ('BA')	2 496 861	1.25%
Sportsmagasinet AS	2 206 588	1.10%
Bruheim	2 205 088	1.10%
Other	98 864 359	49.50%
Total	**199 739 555**	**100.00%**

	Shares
Leading representatives of the Company hold the following shares	
CEO	200 000
Board of Directors	2 924 897

Note 15 — Equity

Amounts in NOK 1 000	Share capital	Share premium	Other paid-in capital	Actuarial gains/(losses)	Other equity (uncovered loss)	Total
Equity 31 December 2012	**49 720**	**882 031**	**63 583**	**-**	**-422 020**	**573 314**
Group contribution not recorded in 2012	-	-	-	-	-533	**-533**
Implementation of IAS19R	-	-	-	20 275	-	**20 275**
Equity 1 January 2013	**49 720**	**882 031**	**63 583**	**20 275**	**-422 553**	**593 056**
Total comprehensive income				**-6 899**	**223 635**	**216 736**
Cost of share-based payments	-	-	30 969	-	-	**30 969**
Proceeds from options execised	215	4 531	-	-	-	**4 746**
Equity 31 December 2013	49 934	886 563	94 552	13 377	-198 918	**845 508**

Note 16 — Financial items

Amounts in NOK 1 000	**2013**	2012
Financial income		
Group contribution	**10 926**	-
Dividends	**35 608**	97 498
Interest income on short term bank deposits	**2 429**	740
Foreign exchange rate gains	**34 670**	38 997
Total financial income	**83 633**	**137 234**
Financial costs		
Interest expense	**28 836**	29 628
Other financial expenses	**13 781**	1 491
Foreign exchange rate losses	**2 432**	62 087
Total financial costs	**45 049**	**93 205**
Net financial gain/(loss)	**38 584**	**44 029**

Note 17 — Loans

On 26 June 2013, EMGS secured a NOK 350 million bond bearing an interest at 3 months NIBOR + 6.00% p.a. The bond is unsecured.

In connection with the issue of the NOK 350 000 000 bond in June 2013, the Company repurchased the NOK 250 000 000 bond maturing 26 May 2014.

Amounts in NOK 1 000	Currency amount	Carrying value liability	Interest rate	Term to maturity	Date of payment
Bond	NOK 350 million	344 943	3 month NIBOR + 6.00%	2.5 years	27 June 2016

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 43 843 as provision per 31 December 2013 (2012: 21 214).

Oslo, 19 March 2014

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen

Jeffrey Alan Harris

Christel Brønstad

Svein Ellingsrud

Maria Moræus Hanssen

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 2013, 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 2013, 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 2013 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 2013 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 on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and in the reports on corporate governance and sustainability and corporate social responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the result 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, 19. March 2014
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

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