Spot the difference.

emgs

Multi-Client library Canada

~2,500 sq. km

~USD 9 million invested

~USD 2.5 million sold

Multi-Client library Brazil

~15,000 sq. km

~USD 15 million invested

~USD 2 million sold

Multi-Client library US GoM

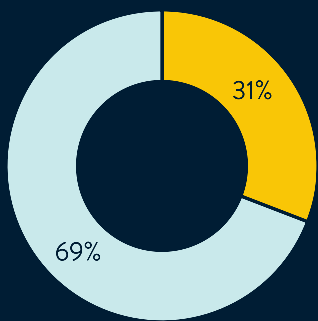
~5,400 sq. km

~USD 13 million invested

~USD 7 million sold

198 million USD in revenue

EMGS ended 2014 with 4 vessels in operation and more than 300 highly skilled employees.



137 million USD contract sales

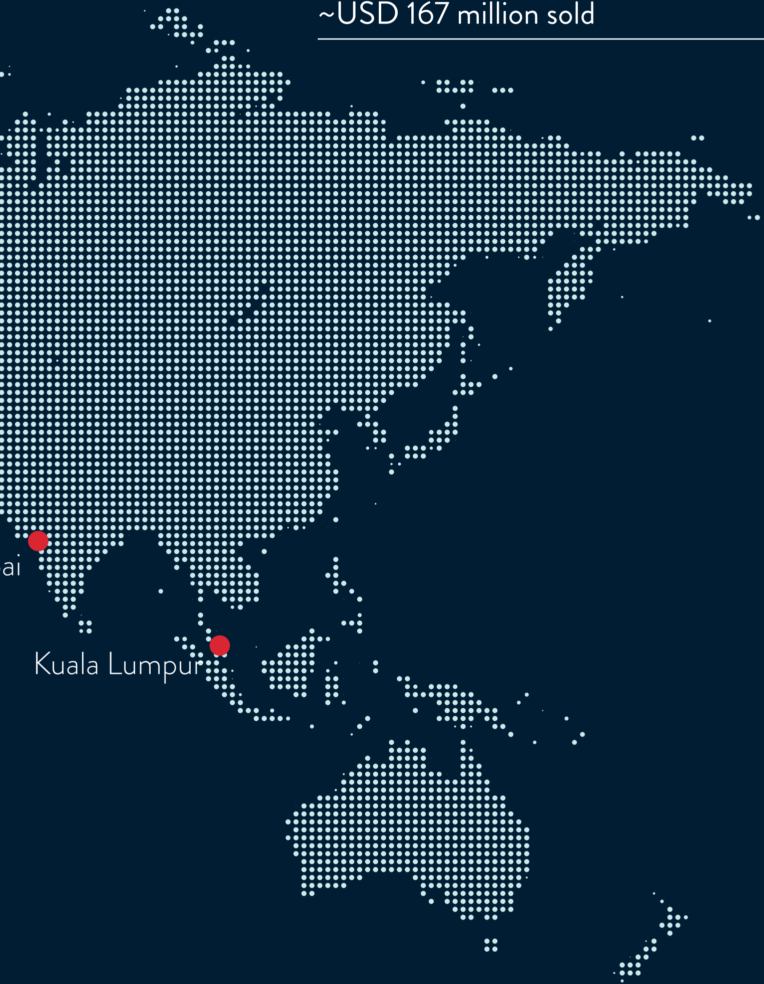
60 million USD multi-client sales

Multi-Client library Norway

~52,000 sq. km

~USD 51 million invested

~USD 167 million sold



59 million USD EBITDA

26 million USD Net Income

4 Board of Directors

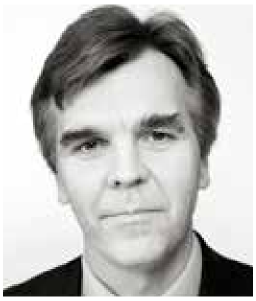
6 Board of Directors' Report

31 Financial Statement EMGS Group

75 Financial Statement EMGS ASA

96 Auditor's Report for 2014

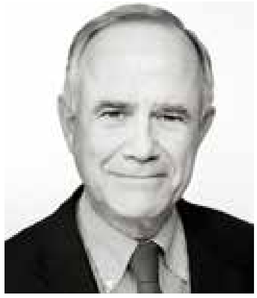
Board of Directors.


Eystein Eriksrud
Chairman of the Board


Stig Eide Sivertsen
Board member


Guro Høyaas Løken
Board member


Petteri Soininen
Board member


Johan Kr. Mikkelsen
Board member


Mimi Berdal
Board member


Tone Østensen
Board member


Svein Ellingsrud
Board member


Christel Brønstad
Board member


Ole Martin Pedersen
Board member

Eystein Eriksrud, Chairman of the Board

Eystein Eriksrud is the Deputy CEO of the Siem Industries Group. He is chairman of Siem Offshore Inc. and a director of Subsea 7 S.A., Siem Kapital AS, Siem Capital UK Ltd. and Siem Europe Sarl.

Prior to joining Siem Industries in October 2011, Eystein Eriksrud was partner of the Norwegian law firm Wiersholm Mellbye & Bech, working as a business lawyer from 2005 with an internationally oriented practice in mergers and acquisitions, company law and securities law, particularly in the shipping, offshore and oil service sectors. He was Group Company Secretary of the Kvaerner Group from 2000-2002 and served as Group General Counsel of the Siem Industries Group from 2002-2005. He has served on the boards of Privatbanken ASA and Tinfos AS as well as a number of other boards. He is a Norwegian citizen.

Stig Eide Sivertsen, Board member

Stig Eide Sivertsen has extensive management experience gained from a number of senior positions. He served as chief financial officer of Petroleum Geo-Services (PGS) from 1993 to 1996, following a four-year period in the same role for Schibsted AS. He founded Nettavisen in 1996 before joining Telenor ASA where he was a member of the global executive management team for more than ten years, among other as chief executive officer of Telenor Broadcast Holding AS. He has served on a number of boards, including several listed companies.

Guro Høyaas Løken, Board member

Guro Høyaas Løken has an MSc in Naval Architecture and Marine Technology from the Norwegian Institute of Technology (NTH) in Trondheim, Norway. She is currently the VP of Engineering and Technology with the company

EMAS AMC As. Guro has a broad managerial experience and substantial international experience. She worked for Aker Marine Contractors, Aker Engineering and Technip for more than 14 years, including as a Global Vessel and Asset manager. She has strong technical skills from the offshore industry with tasks ranging from deep-water platform & mooring design to installation planning and execution.

Petteri Soininen, Board member

Petteri Soininen is currently Partner at RWC Partners and Co-Head of the RWC European Focus Fund. He has been responsible for the RWC European Focus Fund since February 2009 and oversees and manages all engagement activities with companies in the fund's portfolio. Previously, Petteri Soininen worked as strategy consultant with The Boston Consulting Group (BCG) in both Europe and the US. He has over 16 years of experience in collaborating with top management to design and implement change programs including major transformations to deliver sustainable shareholder value.

Petteri holds a MSc (with distinction) in Industrial Engineering from the Helsinki University of Technology. Petteri is a Finnish citizen.

Johan Kr. Mikkelsen, Board member

Johan Kr. Mikkelsen is currently the Chief Technology Officer of Perestroika AS. Johan has 40 years' experience from Norsk Hydro and Statoil. He entered the oil and gas industry at the Mongstad refinery in 1974 as process engineer and a couple of years later as Production Manager at the refinery. In 1983 he moved on as Production Director for Oseberg field and in 1992 as SVP for Norsk Hydro drilling. In 2000 he continued as SVP for Oseberg asset and in 2003 as SVP for the Troll asset. In 2005 he became Country manager for Norsk Hydro Canada before he moved on as Peregrino Project Director and later Production Director for the Peregrino field in Brazil. In 2012 he returned to Norway as VP for the Statoil Subsea Improvement Project until early 2014 when he retired from Statoil.

Johan Kr Mikkelsen holds a Master degree from NTH from 1973 in Industrial Chemistry and a Master degree in Chemical Engeneering from University of Wisconsin, USA in 1979.

Mimi Berdal, Board member

Mimi K. Berdal currently runs an independent legal and corporate counseling business. She holds a Cand. Jur. (law) degree from the University of Oslo and is admitted to the Norwegian Bar Association.

Mimi Berdal is also member of the Board of Directors of the listed companies REC Solar ASA and Itera ASA, in addition to Gassco AS.

Tone Østensen, Board member

Tone Østensen is partner at the leading Norwegian law firm Wiersholm. She has broad experience from equity capital transactions including IPO's, public and private placements, mergers, demergers, take-overs and general M & A. Tone joined Wiersholm in 1997 and has been partner since 2000. Prior to this, she has been a lawyer at Oslo Stock Exchange and the law firm Bugge, Arentz-Hansen & Rasmussen.

Tone holds a Cand.jur. (law) degree from the University of Oslo from 1986.

Svein Ellingsrud, Board member

Svein Ellingsrud has an MSc (1986) and a PhD (1990) in physics from the Norwegian University of Science and Technology. He joined Statoil in Trondheim in 1992 as a research scientist focusing on petrophysics, rock physics, geophysics and electromagnetic techniques. Svein was the project manager from 1997 for the internal Statoil project that later became the background for establishing EMGS. In 2002, Svein joined EMGS as one of its founders and became vice president for research and development. He had responsibility for all technology development within EMGS until May 2008. Svein was also chief technology officer from 2007 until May 2008. After one and a half years as an executive adviser to KMS Technologies, Inc., Svein rejoined EMGS in late 2009. Currently, he is the technical director of EMGS's multi-client business unit. Svein has also served on several boards, including those of KMS Technologies and Sensor Developments AS.

Christel Brønstad, Board member

Christel Brønstad graduated with a BSc in multimedia systems from London Guildhall University, UK, in 2002 and has worked at EMGS since 2003. She has had roles in various EMGS departments, including administration, sales and marketing, and acquisition, and is currently working in the EMGS training center.

Ole Martin Pedersen, Board member

Ole Martin Pedersen received an MSc in engineering cybernetics from the Norwegian University of Science and Technology in 2004. He joined EMGS in 2006 as a software developer and from 2010 to 2012 Ole Martin worked as a geoscientist and G&G processing team leader in EMGS Asia Pacific, Kuala Lumpur. Ole Martin is currently working as a senior software developer / project manager in the EMGS Imaging & Integration Technology Center in Trondheim.

Board of Directors' Report.

2014 was a successful year for EMGS. The industry's adoption of the EM technology was significantly strengthened, the Company signed contracts with a high number of new customers and the multi-client projects made an increasingly important contribution to the business. The Company invested in expanding its multi-client libraries in strategically important basins, as well as in development of the next generation EM equipment and software. The Company's sales organisation was strengthened and the financial results improved considerably on all levels.

Going forward, the market sentiment for the oil service industry creates a challenging environment with increased uncertainty. EMGS is well positioned with a strong balance sheet and a flexible cost structure, and the Company may adjust its cost level to shifting market conditions.

About EMGS

Company and strategy

Electromagnetic Geoservices ASA ("EMGS" or the "Company"), with its subsidiaries (together the "Group"), is the global 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. Integrating the use of EM data into the exploration workflow reduces exploration risk, costs and 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 surveys across the world's mature and frontier basins in water depths ranging from 30 to 3500 metres for more than 60 customers. EM surveys have been conducted under a wide variety of operating conditions and in virtually every major basin around the world.

EMGS' strategy is that the Company shall have a flexible and scalable business model by being asset-light. The Company shall do a mix of contract work and multi-client projects. The prioritised customers are the National Oil companies (NOCs) and selected International Oil companies (IOCs).

In line with this strategy, EMGS has, as of 31 December 2014, four vessels on charter and in operation; The BOA Thalassa, and the BOA Galatea, both owned by the BOA Group (BOA Offshore), the Atlantic Guardian, owned by North Sea Shipping, and the EM Leader, owned by Seatrans. EMGS has various charter agreements for its vessels, which provides the Company with flexibility to adjust its activity and associated costs to the shifting market conditions.

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 2014, the Company had a total of 199,765,555 shares outstanding.

Important events in 2014

In 2014, EMGS generated revenues of USD 198 million, an increase of 37% from 2013. The Company's revenues from the multi-client business grew by 83%, while revenues from contract work increased by 23%. The profitability also strengthened considerably in 2014.

Vision and values

EMGS vision is:

To make EM an integral part of the E & P workflow.

Our vision is to make EM as fully adopted as seismic – to be used as a complementary technology.

By providing EM data integrated with other subsurface measurement we enable our customers to increase success in their exploration and development programs.

In 2014, EMGS revisited and refined the Company's vision. With a drive from Executive management, the Company also defined its core values. Integrity, Commitment, Innovation and Quality. The core values were identified as a result of a company-wide process with involvement at all levels in the organisation.

The values were launched globally both onshore and offshore in October. By including the values as a topic in the employee appraisal and by highlighting them in organisational surveys used to measure the organisational effectiveness, the values are operationalised in EMGS' daily work.

Through the year, several activities have been carried out to support EMGS vision.

Overall, EMGS is constantly working to deliver the best quality product to its customers. The technology is further developed to improve quality and efficiency, as well as to broaden the scope of the products to increase the Company's addressable market. EMGS also put a high priority on interacting with its customers, to better understand the barriers for adoption and to assist the customers in consuming the 3D EM data delivered.

Technology and operational development

<u>The JIP</u>

As previously announced, EMGS is working on a Joint Industry Project ("the JIP"), supported by Shell and Statoil, for developing the Next Generation EM equipment. The project continued throughout 2014.

The new equipment system will see improvements in the source output, both in terms of an increased dipole moment and a broader frequency spectrum. The receivers will have improved signal-to-noise ratio and improvements in the navigation system will result in reduced uncertainties in source dipole and receiver positioning. Combined, this will constitute a step change for the EM technology, which will be able to image deeper targets and thus an increased number of hydrocarbon reservoirs.

<u>Other equipment developments</u>

In addition to the JIP project, EMGS continuously works on incremental improvements to the EM equipment, including receivers, the source and the navigation system, supporting a more efficient operation and improved data quality.

Efficiency wise, the Company had three main improvements in 2014: new sheave wheel guides, solid source antennas and the Ranger 2 positioning system were all implemented on all the Company's vessels.

The new sheave wheel guides secure better control and use of the subsea source umbilical, enabling increased transmission speed without risking de-railing and damaging the umbilical.

Moving from an oil filled streamer antenna to a solid antenna system on the source, results in a more efficient and stable system. This leads to increased transmission speed due to less drag through the water, more efficient deployment and recovery of the source and less back deck exposure for the crews.

The Ranger 2 positioning system was also implemented on all the Company's vessels, securing improved stability on the acoustic ranging from the vessel to the subsurface source. As a result, the transmission speed can increase.

In addition, the iUSBL positioning system was launched as a quality improvement moving from a calculation based method to direct acoustic positioning of the source electrodes. The improved positioning system was used in the Company's multi-client project in Canada in the second half of 2014 and showed excellent data quality and consistent results.

<u>Software development</u>

To promote further adoption of EM as an integral part of the exploration workflow, the Company has developed a new software suite addressing oil company functions such as survey planning and prospect evaluation. The software has been applied successfully on a number of exploration projects with key customers as a step towards full commercialisation in 2015. Furthermore, a new solution workflow that enables to co-interpret seismic and EM data to enhance the interpretation of structural, stratigraphic and fluid properties of a region or zone of interest has been developed and demonstrated on multi-client projects.

Research and development on imaging has focused on algorithms which rely less on a priori geological knowledge. This will lead to a step change in imaging quality and reliability, benefiting an EM project at any stage of exploration from acreage screening to appraisal. This work is carried out in close collaboration with an industry partner which has a strong track record in innovating EM modelling and inversion. The new imaging product is expected to be released in 2015.

EMGS' unique magnetic field measurement capability has proven very valuable through the new magnetotelluric (MT) processing software. MT is a broadband passive geophysical method complementing the controlled-source electromagnetic (CSEM) method in sensitivity and depth of penetration. The MT data acquisition and processing can be performed jointly with traditional CSEM in a cost effective manner, providing structural and velocity control in geological settings where seismic imaging struggles, such as basalt and salt basins.

Other operational improvements

In December, EMGS signed an extended charter agreement for the vessel EM Leader with Seatrans (owner of the vessel) at new and improved commercial terms, as the previous agreement was up for renewal. The new agreement maintains the Company's flexibility to adjust vessel costs and capacity, if needed, in line with the strategy. EMGS has chartered the vessel for two years and has two 1 year options for extension. The agreement includes different rates for when the vessel is in operation, idle or laid up. The new operational rate represents a significant savings compared to the previous.

The vessel Atlantic Guardian spent around 6 weeks at yard in the fourth quarter of 2014, where the vessel underwent important upgrades.

A new winch and handling equipment were installed to meet the JIP technology, and the receiver and anchor capacity were increased. Also, a new azimuth thruster was installed, resulting in increased station keeping capability. This enables towing in an extended weather window. In addition, frequency controlled electro motors was installed on all azimuth propulsion thrusters, which is expected to reduce fuel consumption with 30-40%. EMGS also entered into a new firm charter agreement for the vessel in December 2014. The agreement is firm for three years, with three 1 year options for extension.

Multi-client investments

Over the past years, EMGS has invested in a growing multi-client data library. The Company's multi-client business has become a more and more important part of the overall business, both in terms of revenues and in terms of its importance in the customer adoption process. In 2014, the revenues from multi-client sales amounted to 31% of the total revenues, up from 23% in 2013. The multi-client 3D EM data are both cheaper and easier for oil companies to buy, and are thus important for the adoption of the technology. In addition, the multi-client EM data provide good "showcases" for the Company and the business model is well suited for partnerships with seismic players and authorities.

Important partnership agreements for multi-client

In May 2013, EMGS and TGS entered into a cooperation agreement to develop joint multi-client projects in specific areas. The partnership between the two companies was expanded in 2014 and at the end of 2014, TGS had a 30% ownership in EM data over 17 blocks and a 50% ownership in EM data over 28 blocks, all in the Barents Sea. The joint project has been important for the demonstration of the value from integrating 3D EM data with seismic data to reduce risk and discover more in the Barents Sea.

In April 2014, EMGS announced that the Company had entered into a partnership agreement with La Administración Nacional de Combustibles, Alcohol y Portland ("ANCAP"). ANCAP is the regulating authority for oil and gas exploration in Uruguay. Through the agreement, ANCAP confirms its commitment related to the oil companies' use of EM data in their exploration workflow. The Uruguayan continental shelf has over the last years been established as a major area for exploration activity, attracting major international oil and gas companies.

Also, in May 2014, EMGS signed a multi-client license agreement with Nalcor Energy, the Provincial Energy Corporation of Newfoundland and Labrador, for the acquisition of up to 13,500 square kilometres in a multi-season campaign offshore Canada. See the section Canada below for more information about the project.

EMGS key multi-client libraries

At the end of 2014, EMGS has its most important multi-client libraries in four countries/ basins: Norway, the US Gulf of Mexico, Canada and Brazil.

EMGS' largest 3D EM multi-client library is in Norway. Here, the Company has approximately 52,000 square kilometres of 3D EM data, of which more than 40,000 is in the Barents Sea. The Barents Sea has proven to be a very important "showcase" and a success for EMGS. Through 2014, the Company completed several multi-client projects in the Barents Sea, to further expand the library. In total, as of 31 December 2014, EMGS has invested approximately USD 51 million in multi-client projects in Norway and sold data for around USD 167 million.

In February 2014, EMGS announced that it would commence acquisition of a 3D EM multi-client survey called Daybreak, in the Alaminos Canyon area in the southern US Gulf Mexico. The project was the first commercial multi-client project for EMGS in this important region, which builds on and extends EMGS' extensive acquisition and integration efforts for Pemex in the northern offshore Mexican waters. By the end of 2014, EMGS had completed the project and acquired approximately 5,400 square kilometres of 3D EM data. Total investments amount to USD 13 million, while sales were at USD 7 million by the end of the year.

After announcing the multi-client license agreement with Nalcor Energy in May, EMGS commenced its multi-client project in Canada in July. Unfortunately, the start-up of the project was delayed, causing operations to be affected by the challenging weather conditions in October and November. This also resulted in less data being acquired, with approximately 2,500 square kilometres acquired at the end of 2014 compared with the expected 4,000. The survey targeted the Flemish Pass Basin, where recent major oil discoveries have been made.

EMGS did not have any multi-client projects in Brazil during 2014, but the Company had its first sale of the 3D EM data from this region in December 2014. The Brazil library is the second largest library, covering approximately 15,000 square kilometres. EMGS also has a cooperation agreement with the seismic company Spectrum ASA covering the Foz de Amazonas basin in Brazil.

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.

Sales and customers

Delivering quality projects are crucial to secure customer satisfaction and build confidence in the EM data. EMGS also strongly believes in a tailored strategy and long-term dedication to its customers.

During 2014, EMGS significantly strengthened its sales organisation, both in terms of number of people and in terms of hiring people with key qualifications to tailor the organisation to meet exploration needs. The EMGS sales organisation now consists of commercial sales, technical advisors, exploration advisors, in addition to a global sales and marketing department. The sales force is also located close to targeted NOCs.

Greater exploration experience, coupled with EMGS' new software platform, has allowed the Company's sales force to work more collaboratively with customers during the pre-sales and delivery stages of the projects. This aids in the streamlining of the adoption process as customers can more rapidly embed the 3D EM information in their exploration processes. This again could change decisions and reap the return on investment more quickly, and in a greater volume, than has been previously possible.

In 2014, EMGS signed contracts with a record-high number of new customers. The Company had a total of 15 new customers, up from 4 in 2013 and 7 in both 2012 and 2011, proving the positive development in adoption of the EM technology.

Other important events

Strategic agreement with North Energy

In January 2014, EMGS announced that the Company had signed an agreement with North Energy ASA 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, sale of services related to EM inversion and integrated interpretation, in addition to pre-funding of a 2014 Barents Sea programme.

The payment for the services and pre-funding, of NOK 25 million, was made in cash, while the payment for the 3D EM data, of NOK 75 million, was made in the form of a convertible bond issued by North Energy to EMGS. The bond loan was settled in August. EMGS converted NOK 28.4 million into shares in North Energy, while the remainder, NOK 46.6 million, was settled in cash. EMGS also subscribed for 5 million shares in North Energy's private placement in January, resulting in ownership over 11,851,463 shares in North Energy after settlement of the bond loan, representing 9.96% of the outstanding shares in North Energy at 31 December 2014.

Through 2014, EMGS also entered into several smaller contracts with North Energy, for 3D EM acquisition in the North Sea and in the Barents Sea.

New Board of Directors

On 23 December 2014, an extraordinary general meeting was held in EMGS. The shareholder elected members of the Board, proposed by the Company's nomination committee on 18 December 2014, were elected.

The new Board comprise of Eystein Eriksrud (Chairman), Stig Eide Sivertsen (Deputy Chairman), Petteri Soininen, Johan Mikkelsen, Guro Høyaas Løken, Mimi Berdal and Tone Østensen. In addition to the shareholder elected directors, the Board includes three employee representatives elected by and among the employees; Svein Ellingsrud, Christel Brønstad and Ole Martin Pedersen.

Events after the balance sheet date

Change of CEO

On 7 January 2015, the new Board of Directors of EMGS appointed Bjarte Bruheim as new CEO of the Company. Bjarte Bruheim has served as Executive Chairman of EMGS since July 2004, and he has extensive experience from the oil service sector over the past 30 years.

Patent case against PGS

On 18 December 2013, 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. Later, EMGS also filed similar claims in Norwegian courts.

The hearing in the Oslo City Court took place in October and November 2014. In February 2015, EMGS received the decision of the Oslo City Court that the EMGS' patent was found to be invalid and the decision stipulates, if it stands, that EMGS shall cover PGS' legal fees of approximately USD 2.0 million. Although EMGS has appealed the decision, the Company has made a precautionary provision of USD 2.0 million under other operating expenses in the 2014 accounts.

The decision of the Oslo City Court on validity of the patent was contrary to previous international decisions all made by specialised patent judges. EMGS successfully defended the patent against claims of invalidity from Schlumberger Holding Ltd in the Netherlands, in February 2008 and in the UK Court of Appeal in July 2010 and through several oppositions in the European Patent Office appeal division in December 2011.

23rd licensing round

In January 2015, the Norwegian Petroleum Directorate announced the 23rd licensing round. Fifty-seven blocks/parts of blocks were announced in the round, of which three are in the Norwegian Sea and 54 in the Barents Sea. Of the 54 blocks in the Barents Sea, EMGS has 3D EM multi-client data covering 36 of the blocks, whereof 14 are in the Hoop area and 22 are in the southeast area.

The application deadline is 2 December 2015 and the government aims to award new production licenses in the first half of 2016. EMGS has already sold multi-client data related to the 23rd licensing round to 11 companies and expects further sales related to this in the first three quarters of 2015.

EMGS – Forward rate agreement to secure foreign exchange gain

On 2 March 2015, EMGS entered into a forward rate agreement to purchase NOK 350 million in exchange for USD 46.1 million, to secure the unrealised foreign exchange gain arising from the Company's existing NOK 350 million bond loan.

The bond loan was initially entered into when the exchange rate was NOK/ USD 6.07, resulting in a loan obligation at that time of USD 57.7 million.

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, fleet status and vessel utilisation and the charter terms of the Company's vessel fleet.

Demand for EM services

The overall demand for EMGS' services is dependent, in part, on offshore exploration and development trends, and the amount of spending by oil and gas companies. Following the drop in the oil price during 2014, several oil companies have announced that they will cut their E&P spending in 2015.

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.

In 2014, the adoption of the EM technology was significantly strengthened. A high number of new customers bought EM services and several companies became repeat customers. The Company has two main sources of revenue: contract sales and multi-client sales. In addition, the Company receives some revenue related to processing services. These revenues are presented as contract sales.

A "contract sale" generally occurs when a customer enters into an agreement with EMGS for the acquisition and/or processing of EM data ("construction of the final data product") based on specific acquisition/processing parameters. The product is the exclusive property of the customer. The price of the survey is normally fixed and agreed before the survey commences. "Multi-client sales" are revenues related to sales of EM data from a library of data owned by EMGS.

Fleet status and utilisation

As per the end of 2014, the Company had four charter agreements for its vessels. The two purpose-built 3D EM vessels, the BOA Thalassa and the BOA Galatea, have firm charters until December 2015 and July 2016 respectively, with a 1 year option for the BOA Galatea. The Atlantic Guardian, which was considerably upgraded in the fall 2014, entered into a new firm charter agreement in December 2014, for three years until December 2017, with three 1 year options. The Company also signed an extended and improved charter agreement for the EM Leader in December 2014, which now has a fixed charter until December 2016, in addition to two 1 year options.

The vessels operated in 12 countries in the course of 2014: Mexico, Brazil, Canada, Norway, UK, Malaysia, Brunei, Myanmar, Thailand, Uruguay, Morocco and Australia.

In total, EMGS recorded a total of 44 vessel months in 2014, an average of 11 per quarter, compared with 42.5 vessel months in 2013, an average of 10.6 per quarter. The Company had a vessel utilisation of 69% in 2014, compared with a utilisation of 67% in 2013. The vessel utilisation for the year was allocated with 41% to contract work, 28% to multi-client projects, 11% steaming, 8% yard and 12% other unpaid time.

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.

Financial statements

Going concern

The Group has prepared its financial statements under the going concern assumption, and the Board confirms in accordance with Section 3-3a 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 2014, the carrying value of equity was USD 126.2 million, up from USD 102.2 million at the end of 2013.

Results of operations

The year ending 31 December 2014 is compared below with the year ending 31 December 2013.

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

Revenues and operating expenses

The Group recorded revenues of USD 198.0 million in 2014, up from the USD 144.6 million reported in 2013. Contract sales ended at USD 137.2 million, while multi-client sales totalled USD 60.8 million, whereas USD 13.1 million was recorded as pre-funding revenues and USD 47.7 million was recorded as late sales revenues. In 2013, USD 111.3 million was contract sales, while multi-client sales came in at USD 33.3 million. This means that the sales from the multi-client projects have increased by 83% from 2013 to 2014 and constitute 31% of the revenues in 2014, compared with 23% in 2013.

The Group recorded 44 vessel months (3.7 vessel years) in 2014, compared with 42.5 vessel months (3.5 years) in 2013. The increase in revenues from 2013 to 2014 can mainly be explained by the increase in number of vessel months, a slight increase in utilisation, as well as the significant increase in multi-client sales.

Charter hire, fuel and crew expenses ended at USD 61.3 million, an increase of USD 10.1 million from the USD 51.2 million reported in 2013. The increase mainly reflects higher operational activity. The Company's capitalisation of multi-client costs for the year was USD 30.6 million in 2014 and USD 32.1 million in 2013.

Employee expenses amounted to USD 55.2 million in 2014, slightly up from the USD 54.3 million reported in 2013 (see more details in Note 8). The expenses related to salaries increased by 15%, which can be explained by an increase in number of employees from 286 at the end of 2013 to 311 at the end of 2014. In addition, the Group accrued for higher bonuses than in the previous year.

For the full year 2014, other operating expenses came in at USD 22.5 million, which are in line with the USD 21.5 million recorded in 2013.

Depreciation and amortisation

Depreciation and ordinary amortisation totalled USD 16.3 million in 2014, down from USD 17.5 million in 2013. The decrease is due to assets becoming fully depreciated.

Multi-client amortisation came in at USD 12.6 million in 2014, in line with the USD 12.3 million reported in 2013. The amortisation expense only includes amortisation of costs directly linked to production, such as acquisition costs, processing costs, and direct project costs.

A multi-client impairment of USD 2.0 million was recorded in 2014, related to the Sunshine project in the US Gulf of Mexico. No impairment was recorded in 2013.

Financial items and result for the year before and after taxes

Interest expenses ended at USD 5.9 million in 2014, down from USD 7.2 million in 2013. EMGS recorded a gain on net foreign currency of USD 8.1 million this year, compared with a gain of USD 5.8 million was recorded in 2013. The gain is mainly related to the Company's bond loan of NOK 350 million.

Net financial items ended at USD 3.1 million, up from a negative USD 0.9 million in 2013.

For 2014, EMGS recorded a profit before income taxes of USD 31.2 million, compared with a loss of USD 13.2 million in 2013.

Income tax expenses of USD 5.3 million were recorded in 2014, compared with USD 1.9 million in 2013. These taxes relate to results in foreign jurisdictions.

EMGS therefore reported a net profit of USD 25.9 million for 2014, up from a loss of USD 15.1 million in 2013.

Cash flow and balance sheet

Cash flow from operating, investing and financing activities

For 2014, net cash flow from operating activities was USD 31.7 million, down from the USD 51.9 million reported in 2013, although the income before income tax increased from a loss of USD 13.2 million to a profit of USD 31.2 million. The decrease is mainly a result of an increase in trade receivables of USD 34.0 million in 2014, caused by a record-high sales in December 2014. A high proportion of the trade receivables has been collected by the end of February.

EMGS applied USD 59.5 million in investing activities in 2014. The investments consist of USD 19.8 million in property, plant and equipment, whereas "the JIP" (Joint Industry Project for development of the next generation EM equipment) amounts to USD 12.7 million. The Company invested USD 30.6 million in its multi-client libraries in the Barents Sea, Canada and US Gulf of Mexico, as well as USD 9.0 million in financial assets, which includes the investment in the North Energy share. In 2013, cash applied in investing activities amounted to USD 45.3 million.

Cash flow from financial activities was negative with USD 2.3 million in 2014, compared with a positive USD 9.5 million in 2013. The main reason for the change was that the Company had a net positive contribution of USD 14.7 million in 2013 after issuance of a new bond loan and repayment of the old loan.

Cash decreased by USD 30.1 million in 2014. At 31 December 2014, cash and cash equivalents totalled USD 26.6 million, including USD 1.4 million in restricted cash.

Financial position

EMGS total assets amounted to USD 235.3 million at 31 December 2014, up from USD 214.2 million at 31 December 2013.

This includes an increase of USD 12.0 million in assets under construction, which mainly includes the "JIP", i.e. the joint industry project for development of the next generation EM equipment, and a net increase in the multi-client library of USD 5.7 million. The carrying value of the library is net of the contribution from TGS of a total of USD 8.0 million during 2014 from joint projects in the Barents Sea.

The above-mentioned increase in trade receivables of USD 34.0 million is partly offset by the decrease in cash and cash equivalents of USD 30.1 million.

Total borrowings were USD 46.9 million at the end of 2014, down from 56.6 million at 31 December 2013, the reduction is mainly reflecting the currency effect of the NOK 350 million bond loan.

Liquidity requirements and financing facilities

EMGS' cash flow forecast is considered sufficient for the Group to meet its liquidity requirements for 2015.

The Company's need for liquidity fluctuates 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 25.2 million at 31 December 2014, compared with USD 55.3 million at 31 December 2013.

EMGS has one bond loan totalling USD 46.7 million at 31 December 2014. In addition, the Company has financial lease obligations of USD 0.1 million.

EMGS' financial position is sound. The Company has total borrowings of USD 48.5 million and a cash position of USD 26.6 million, resulting in a Net Interest Bearing Debt (NIBD) of USD 21.9 million and a NIBD to EBITDA ratio of 0.37. In addition, the Company has a high level of trade receivables at year-end amounting to USD 65.5 million, due to a record-high multi-client sales in the last month of 2014.

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 2014, EMGS had R&D costs of USD 4.3 million, up from USD 3.3 million in 2013.
In addition, the Group capitalises certain R&D expenses in accordance with IFRS. In 2014, the Group capitalised USD 1.9 million of its employee costs as development, down from USD 2.4 million in 2013.

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 244 519
Net income allocated	KNOK 244 519

Distributable equity as of 31 December 2014 was KNOK 30 534.

Financial risk

EMGS principal financial liabilities are trade payables and other short term liabilities. The Company has various financial assets such as trade receivables, cash and short-term deposit which arise directly from its operations. EMGS has not entered into any hedging transactions in 2014 nor 2013.

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. Financial instruments affected by market risk include loans and borrowings and AFS investments. Please see sensitivity analysis in note 3.

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 Company has limited exposure to interest rate risk.

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. EMGS ASA has USD as functional currency, so the foreign currency risks is primarily with respect to NOK in EMGS ASA. For 2014, approximately 84% of the Company's sales revenues were denominated in USD, whilst approximately 63% of the costs were denominated in USD.

EMGS also had a NOK 350 million bond loan as of 31 December 2014.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient liquidity to be able to meet its financial obligations. EMGS' 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 is the Company's objective to balance these sources of liquidity. EMGS feels confident in reaching the revenue forecast necessary for a stable liquidity.

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. EMGS is exposed to credit risk from its operating activities (primarily for trade receivables and cash and cash equivalents). See Note 21 for aging analysis of trade receivables.

EMGS 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. 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 2014, EMGS did not experience any significant defaults in payments from customers.

Receivable balances are monitored on an ongoing basis. Historically, the Company has not had material loss from bad debt. In 2014, EMGS had two major customers who amounted to a significant part of sales. These customers are 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 30 October 2014.

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

2014 was a successful year for EMGS as the industry's adoption of the EM technology was significantly strengthened. Going forward, the market sentiment for the oil service industry creates a challenging environment with increased uncertainty. EMGS has a strong balance sheet and can utilise its flexible cost structure to adjust its cost level to shifting market conditions.

Based on the Company's strategy to expand its multi-client library, the Company expects to allocate its vessel capacity with 30-40% to multi-client projects in 2015, with an average prefunding level in excess of 50%.

EMGS expects capital expenditures of less than USD 20 million in 2015, in addition to multi-client investments.

Oslo, 19 March 2015

Eystein Eriksrud
Chairman of the Board

Stig Eide Sivertsen

Guro Høyaas Løken

Petteri Soininen

Johan Mikkelsen

Mimi Berdal

Tone Østensen

Christel Brønstad

Svein Ellingsrud

Ole Martin Pedersen

Bjarte Bruheim
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 2014.

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 the Company 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 2014 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 2014 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 2015

Eystein Eriksrud
Chairman of the Board

Stig Eide Sivertsen

Guro Høyaas Løken

Petteri Soininen

Johan Mikkelsen

Mimi Berdal

Tone Østensen

Christel Brønstad

Svein Ellingsrud

Ole Martin Pedersen

Bjarte Bruheim
CEO

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 liability 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 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.

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 30 October 2014. The Company provides a report on its principles for corporate governance in its annual report. 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 2014.

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.

In 2014, EMGS revisited and refined the Company's vision. The Company also defined its core values: Integrity, Commitment, Innovation and Quality. The core values were identified as a result of a company-wide process with involvement at all levels in the organisation. The values are operationalised in EMGS' daily work.

The Board has established a Code of Conduct and a set of policies, among others 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 provides more information about the Company's business activities and 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. The Articles are available at the Company's homepage, www.emgs.com

3. Equity and dividends

Equity

As of 31 December 2014, 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 2014, the EMGS Group had an equity of USD 126 million, representing an equity ratio of 54%.

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

At the Annual General Meeting (AGM) held in 2014, the Board was authorised, as described below, for share capital increases and acquisition of own shares.

The Board was authorised to increase the share capital by up to NOK 4,994,138 through one or more share issues equal to an issuance of up to 19,976,552 new shares each with a par value of NOK 0.25. Further details are set out in the resolution by the AGM that states, among others, 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 2015.

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 the resolution by the AGM 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 Programme. The authorisation is valid until 30 June 2015.

Also, at the general meeting, the Board was authorised to acquire shares in the Company. The shares are to be acquired at market terms in a regulated market where the shares are traded. The shares are to be disposed of as part of consideration payable for transactions where shares is an alternative consideration including but not limited to acquisitions made by the Company, mergers, demergers or acquisitions involving the Company. The maximum number of shares which can be acquired is 9,988,277. The minimum amount which may be paid for each share acquired pursuant to this power of attorney is NOK 0.25, and the maximum amount is NOK 15.

As of 31 December 2014, the Board had not used any of the above mentioned authorisations.

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 over 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 an agreement with Ocean Seismic de Mexico S.A. de C.V., in which the former Chairman of the Board and present CEO of the Company, Mr. Bjarte Bruheim holds 16% of the shares. The transaction is further described in the note 33 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

General Meetings

General Meetings are the Company's ultimate corporate body. EMGS encourages all shareholders to participate in general meetings. The Board endeavours to organise the general meetings 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 Annual General Meeting (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 2014 AGM was held on 3 June 2014. The 2015 AGM is scheduled to be held on 10 June 2015.

The notices calling the general meetings are made available on the Company's website and sent to shareholders by post no later than three weeks prior to 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 notices calling Extraordinary General Meetings shall be sent no later than two weeks before the date of the meeting.

Shareholders who wish to take part in a 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 meetings.

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.

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. Resolutions and supporting information are sufficiently detailed and comprehensive to enable shareholders to form a view on matters on the agenda 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 it is also made available on the Company's website.

Participation in general meetings

Shareholders who 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.

The Chairman of the Board, the CEO, the CFO and the auditor will be present at the AGM.. Other board members will, if possible, attend the general meetings.

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 the issuance of a stock exchange announcement, and are also made available on the Company's homepage.

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 2014, 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 proposes candidates for election to the Board of Directors and for the remunderation of the members of the Board. Also, the committee proposes candidates for election to the nomination committee and suggest changes to the mandate or guidelines for the nomination committee.

EMGS' nomination committee has extensive contact with shareholders, the Board and the Company's executive management when searching for candidates for election to the Board.

The recommendation to the AGM relating to the election should be available in time to be sent with the notice calling the 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 AGM 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 2014, EMGS' Board had ten members, including three members elected by and among the employees. Four 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-elected board members are made with a view to ensure that the Board can attend to the shareholders' common interest and the Company's need for competence, capacity and diversity. Also, the Board should function well as a collegial body. The Chairman of the Board is elected by the general meeting.

As of 31 December 2014, the Board consists of the following:

- Eystein Eriksrud, Chairman
- Stig Eide Sivertsen, Deputy chairman (independent)
- Petteri Soininen
- Guro Høyaas Løken (independent)
- Johan Kr. Mikkelsen
- Mimi Berdal (independent)
- Tone Østensen (independent)
- Svein Ellingsrud, employee representative
- Christel Brønstad, employee representative
- Ole Martin Pedersen, 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 shareholder-elected board members are also independent of the Company's substantial business associations and major shareholders. The three members that are not considered independent are related to the Company's largest shareholders.

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 three sub-committees composed of board members to work on matters in these areas. The Board has established and stipulated instructions for these committes.

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 interim and 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. Also, the audit committee meets regulary with the auditor where no member of the executive management is present.

As per 31 December 2014, the audit committee consists of the following:

- Stig Eide Sivertsen, Chairman
- Eystein Eriksrud
- Guro Høyaas Løken

Compensation committee

The compensation 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 2014, the compensation committee consists of the following:

- Eystein Eriksrud, Chairman
- Petteri Soininen
- Johan Kr. Mikkelsen
- Mimi Berdal

Strategy Committee

A strategy committee was established by the Board on 11 February 2015. The committee shall contribute to the Company's strategy development.

The committee consists of the following:

- Petteri Soininen, Chairman
- Eystein Eriksrud
- Johan Kr. Mikkelsen

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 financial risk management objectives and policies are included in note 3 to the financial accounts.

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 reflects 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 employee representatives on the Board hold options, but these have been granted to them as employees of the Company, not as board members.

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 personnel 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 than 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/ or the CFO, 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 CEO or the CFO meet with shareholders and potential investors.

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.

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 on 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.

Introduction

This report from the Board of Directors (the "Board) of Electromagnetic Geoservices ASA ("EMGS" or "the Company") describes EMGS' principles, efforts, measures and results related to sustainability and corporate social responsibility ("CSR") in the year of 2014.

This report is based on the principles in EMGS' policy for sustainability and corporate social responsibility (the "CSR Policy"). These principles cover the areas labour rights, anti-corruption, the environment and human rights. The CSR Policy applies to both national and international operations.

It is the intention of EMGS that the Company's efforts within (i) working environment issues, including safety measures, (ii) anti-corruption procedures and training, and (iii) the attitude encouraged from the employees through policies shall contribute to improved understanding for human rights, working ethics, work environment and environmental impact.

The work related to sustainability and CSR (together "the CSR work") in EMGS is based on the values formulated by EMGS during 2014 as the basis on which the Company has and will base its CSR work:

- **Integrity** in all our relationships
  We earn trust through demonstrating integrity. We dare to challenge and we are honest. Our honesty benefits all our relationships.

- **Commitment** to value creation
  We are strong believers in the value our technology create for both customers and shareholders. We go the extra mile.

- **Innovation** in products and services
  We set the stage for the future of the industry. We are passionate about developing what our customers need.

- **Quality** in every step
  We care about our people, our customers and our deliveries. We don't compromise on safety or on quality.

The report covers CSR work related to EMGS with its subsidiaries (together the "Group") in 2014.

The report is primarily based on feedback from management in the Group, the EMGS Ethics Committee, and various other internal committees, reporting systems and reports. During 2014, CSR issues were discussed in management meetings and by the Board.

This report includes an introduction to the abovementioned principles, the EMGS commitment, implementation and actions as well as the measures and outcome specific for 2014. The CSR policy is also available on the Company's homepage www.emgs.com.

Statement on CSR work 2014

All work in the Group related to CSR is based on the CSR Policy. Below is an overview of the principles, as well as a description of how the Company reports issues relates to CSR and measures taken under each of the main CSR principles.

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 of issues related to HSE is filed in the Company's 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 report cards may be relevant to all four of the CSR principles, but most of the actual reporting is related to incidents and non-conformance of technical and/or HSE issues. Some of the issues are related to labour.

In 2014, EMGS received 2,295 report cards, of which 2,282 were filed from the vessels.

The working environment and the employees

As of 31 December 2014, the EMGS Group had 311 employees, of which 119 work in Trondheim, Norway, 37 at its regional office in Houston, USA, 24 at the regional office in Kuala Lumpur, Malaysia, 20 at the regional office in Oslo, Norway. In addition, 80 employees work offshore and the remaining 31 work in other locations.

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 internal educational and training center, called the EMGS Training Centre. This Training Centre provides internal and external educational programs. As many employees are involved in offshore operations, a dedicated HSE training programme has been implemented to ensure the safest possible working environment.

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

The percentage of absences due to illness in 2014 was 2.4%, an increase from the 0.9% reported in 2014. During 2014, the Company had one lost time injury recorded, however this injury was not an employee or contracted employee.

Equal opportunities and discrimination statement

EMGS is proud of the fact that the Group's 311 employees represent more than 31 different nations with different cultures.

EMGS has defined and implemented guidelines to protect against gender discrimination. At the end of 2014, 20 % of the Group's 311 employees were female, compared to 22% in 2013. The Group will continue to prioritise its goal of improving the current imbalance by actively following a recruiting strategy to this effect. EMGS recognises that the average compensation for its female employees is lower than the average workforce figure. This can be explained by high degree of representation of males at management level and among the technical professionals.

The Discrimination Act's objective is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin color, language, religion and faith. The Group is actively and systematically working to encourage the Act's purpose within its business. The activities include recruiting, remuneration, working conditions, promotion, development opportunities and protection against harassment. These are issues of importance for EMGS' working environment, as the Group has employees from more than 30 nations with a multitude of languages, cultures, ethnicities, religions and faiths. The Group uses English as the company language so that all employees can take part in communication.

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

Committees work

The Working Environment Committee shall participate in planning safety and environmental work and follow up developments closely on issues relating to the safety, health and welfare of the employees. The Working Environment Committee met two times in 2014.

The Forum for Employee Representatives meet with the CEO, the head of HR and the Chief Legal Counsel. The forum is regulated by the Norwegian Working Environment Act. The goal for this forum 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 for Employee Representatives including representative of management met six times in 2014.

Working environment measures

EMGS management encourage the dialogue between management and employees, and between the different departments within EMGS. Some of the actions to facilitate dialogue are through management visits to vessels, office meetings and offshore seminars.

In 2014 management made 23 visits to vessels in the Company's fleet. The management team has also visited all business units within the Group. The annual offshore seminar in the Trondheim office include all offshore employees and representatives of management and other departments within EMGS. The objective for these seminars are to facilitate training (technical, HSE and CSR), exchange experience between the crews on different vessels, and improve cooperation between offshore and office personnel. Two seminars for offshore crew were arranged in 2014.

The annual HSE report for 2014 identifies KPI's, goals and objectives within HSE and is reported in the internal system GEMS. A quarterly HSSE report is put into GEMS for all employees to review.

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 was implemented in August 2013 and the Norwegian law implementing this convention, the Shipworker Act, was implemented on the same day. The MLC 2006 is an ILO guideline ratified by 47 countries and implemented on 76% of the world gross tonnage of ships. Most jurisdictions, including Norway, have given an exemption from the MLC 2006 for geophysical crew members. EMGS' working environment and terms were already in line with the MLC 2006 and the Shipworker Act requirements before its implementation.

The conclusion of the review is that EMGS has not experienced any reported breach of the four principles related to Labour in 2014.

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 in all its forms, including extortion and bribery. EMGS 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 actively prevent corruption and bribery.

EMGS has several policies and standards related to its anti-corruption compliance program, including but not limited to the Ethics Policy and Code of Conduct as well as an anti-corruption compliance training program. The training is a combination of web based and more in depth training in meetings. In 2014, a web-based training programme for all employees was made mandatory. This course was completed by 95.4% of the employees. Management has attended and given several courses in anti-corruption compliance in 2014. All offices of the Group have received anti-corruption compliance training.

The Group has a training program and a compliance program with a hot-line for reporting, in addition to the Ethics committee to which employees can report concerns. EMGS encourage and support employees who report dilemmas and incidents in relation to attempted and/or actual corruption, bribery and/or fraud to management ("whistle blowers"). The Company has received reports from employees during 2014. All reports have been followed up adequately by management.

Management has given reports on anti-corruption compliance measures six times to the Board in 2014.

EMGS has experienced offers to engage in corrupt behavior also in 2014. Such offers have been handled by employees in line with the Company's policies and been reported to the Chief Legal Counsel. The risk of corrupt behavior in one specific destination has, in 2014, led to the decision to avoid this destination and choose a different port of call. The internal control has, as far as the Company's knows, stopped all attempts in 2014.

EMGS continue to have a high priority on the Company's compliance work.

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.

In 2014 the Company has continued to cooperate with its stakeholders to increase the transparency of its commitment to promote greater environmental responsibility.

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.

EMGS has taken the initiative to upgrade one of the vessels on time charter in order to reduce fuel consumption. The upgrade was done in 2014 and is expected to reduce fuel consumption by up to 40% when the vessel is in operation.

EMGS is of the opinion that a more systematic use of its EM data in oil exploration 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. It is the intention of EMGS that the working environment effort, including safety measures, the anti-corruption procedures and training as well as the attitude encouraged from the Company's employees shall contribute to improved understanding for human rights, working ethics and a cleaner environment in the areas of the world where the Group operates.

The reputation of the Company is created by the collective 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 related to human rights. 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 2014.

Oslo, 19 March 2015

Eystein Eriksrud
Chairman of the Board

Stig Eide Sivertsen

Guro Høyaas Løken

Petteri Soininen

Johan Mikkelsen

Mimi Berdal

Tone Østensen

Christel Brønstad

Svein Ellingsrud

Ole Martin Pedersen

Bjarte Bruheim
CEO

Determination of Salary Statement.

This declaration has been prepared by the Board of Directors of Electromagnetic Geoservices ASA ("EMGS" or the "Company") in accordance with the Norwegian Public Limited Liability Companies Act section 6-16a. The declaration applies to the financial year 2014 and will be presented at the Annual General Meeting in EMGS in accordance with the Norwegian Public Limited Liability Companies Act section 5-6, subsection 3.

1. Main principles for determination of management remuneration

The objective of the Company's compensation policy applied to executive management («Management»), is to attract and retain the best leadership capabilities to lead and develop the Company going forward. The compensation is based both on a non-variable element ("Base Salary") and variable elements such as bonus, stock options and variable special payments ("Variable Compensation").

The Base Salary shall be competitive to local market levels, and is determined by the manager's skills and level of responsibility in the organisation. The Base Salary is determined by using industry benchmarks with local relevance for similar roles. The Variable Compensation, such as bonuses, is applied using Company performance and individual performance. Long term incentives, such as stock option, is applied by assessing the criticality of the role to the Company, as an instrument to retain the critical skills in the Company.

2. Salaries and remuneration

2.1 Base Salary

The Management's fixed annual salary is defined as the Base salary and is subject to an annual consideration.

2.2 Performance Bonus

The Company has a performance bonus program linked to annual performance. The objective of the program is to compensate individuals based on the achievement of Company objectives as well as personal performance. The objectives of the Company are established by the Board of Directors.

Management has a bonus potential up to 40% of Base Salary, and the rates are specified in the individual employment agreements.

Bonus program is established as a general program for all employees with a bonus potential of 10 – 40 % of Base Salary.

2.3 Share Option Program

Management participate in the Company's Stock Option Plan which is used to attract and retain key employees. The program was established with the aim to provide a long-term incentive. For new grants, minimum exercise price is set at fair market value at the date of grant. The vesting period is 4 years.

Grants to Management will be at the discretion of the Board.

In the Annual General Meeting held in June 2014, it was resolved to authorise the Board to issue a maximum of 8,000,000 options over 1 year under the option program (not only Management), and that the maximum outstanding options shall not at any time exceed 7.5% of the registered number of shares in the Company.

The total number of outstanding options as of 31 December 2014 is 12,647,007.

2.4 Pension plan

Management participates in the Company´s collective pension plan. The Company changed the pension plan from a defined benefit pension plan to a defined contribution pension plan effectively 1 December 2014. The new pension plan involves a contribution level of 7% of Base Salary from 0 G up to 7.1 G and 25.1% of Base Salary from 7.1 G up 12 G, where G is the base amount (Folketrygdens grunnbeløp) that equals NOK 88 370 as of 31 December 2014.

As part of the conversion to the new plan, the Company provides a cash compensation to those employees that has a calculated loss in a 10 year perspective from the transfer to the new plan.

2.5 Special Retention Program

The Company may at discretionary basis apply instruments as one time retention bonus etc. in special cases.

2.6 Benefits in kind

Management may be given the benefits in kind that are common practice i.e. telephone expenses, laptop, free broadband connection and use, newspapers and car allowance.

2.7 Severance plan

The Chief Executive Office is entitled to receive his Base Salary and benefits for up to 18 months after the end of his notice period if his employment is terminated. Other members of the Management has agreements to receive Base salary and benefits beyond the statutory notice period and up to 12 months after the end of his/hers notice period.

The severance plan includes an anti-compete clause and is structured to ensure that members of the Management do not start working for a competitor shortly after leaving the Company.

Agreements may be signed regarding severance pay for other members of general 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 general management other than the CEO.

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

3. Management salaries and remuneration in subsidiaries of EMGS

Companies within the EMGS group are to follow the main principles of the Company's managerial salary policy as described in section 1. It is an ambition of the Company to globally coordinate the wage policy and the plans used for variable compensation throughout the EMGS Group.

4. Review of the executive management remuneration policy that has been carried out in the financial year 2014

The remuneration policies set out in the declaration on determination of salary and other compensation to the Management for 2014 were followed in all respects. No members of Management received a performance bonus exceeding 40% of Base Salary.

Oslo 19 March 2015

Eystn Eriksrud

Eystein Eriksrud
for and on behalf of the Board of
Directors of EMGS

Consolidated Income Statement.

1 January — 31 December

Amounts in USD 1 000	Note	2014	2013
Operating revenues			
Contract sales	6	**137 222**	111 284
Multi-client pre-funding	6, 16	**13 140**	2 927
Multi-client late sales	6, 16	**47 661**	30 387
Total operating revenues		**198 023**	**144 598**
Operating expenses			
Charter hire, fuel and crew expenses	7	**61 300**	51 219
Employee expenses	8	**55 172**	54 344
Depreciation and ordinary amortisation	16, 17	**16 291**	17 495
Multi-client amortisation	16	**12 595**	12 337
Multi-client impairment	16	**2 003**	-
Other operating expenses	9, 10	**22 534**	21 488
Total operating expenses		**169 895**	156 883
Operating profit/(loss)		**28 128**	**-12 285**
Financial income and expenses			
Interest income	11	**687**	477
Interest expenses	11	**-5 926**	-7 204
Change in fair value of conversion rights	18	**-210**	-
Net gains/(losses) of financial assets		**416**	-
Net foreign currency income/(loss)	11	**8 121**	5 782
Net financial items		**3 088**	**-945**
Income/(loss) before income tax		**31 216**	**-13 230**
Income tax expense	12	**5 330**	1 865
Income/(loss) for the year		**25 886**	**-15 095**
Basic income/(loss) per share (result for the year/shares) in USD	32	**0.13**	-0.08
Diluted income/(loss) per share (EPS) in USD	32	**0.13**	-0.08

Consolidated Statement of Comprehensive Income.

1 January — 31 December

Amounts in USD 1 000	Note	2014	2013
Income/(loss) for the year		**25 886**	**-15 095**
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		**-34**	-255
Net (loss)/gain on available-for-sale (AFS) financial assets	18	**-3 984**	-
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain/(losses) on defined benefit plans		**-**	-1 055
Other comprehensive income		**-4 018**	-1 310
Total comprehensive income/(loss) for the year		**21 868**	**-16 405**

Consolidated Statement of Financial Position.

As of 31 December

Amounts in USD 1 000	Note	2014	2013
ASSETS			
Non-current assets			
Goodwill	16	**14 422**	14 422
Deferred tax asset	13	**3 008**	3 202
Multi-client library	16	**33 758**	28 108
Other intangible assets	16	**3 220**	3 352
Property, plant and equipment	17	**19 247**	27 683
Assets under construction	17	**31 164**	19 200
Financial assets	18	**4 766**	-
Total non-current assets		**109 585**	**95 967**
Current assets			
Spare parts, fuel, anchors and batteries	20	**14 906**	12 990
Trade receivables	21	**65 531**	31 520
Other receivables	19	**18 649**	17 138
Cash and cash equivalents	22	**25 213**	55 305
Restricted cash	22	**1 400**	1 240
Total current assets		**125 699**	**118 193**
Total assets		**235 284**	**214 160**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital, share premium and other paid in equity	14	**287 398**	285 249
Other reserves		**-3 227**	791
Retained earnings		**-157 937**	-183 823
Total equity		**126 234**	**102 217**
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	23	**-**	3 452
Non-current tax liability		**-**	35
Provisions	26	**15 299**	7 164
Borrowings	24	**46 859**	56 628
Total non-current liabilities		**62 158**	**67 279**
Current liabilities			
Trade payables	25	**13 362**	15 942
Current tax liabilities	13	**4 573**	2 299
Other short term liabilities	27	**27 270**	26 295
Borrowings	24	**1 687**	128
Total current liabilities		**46 892**	**44 664**
Total liabilities		**109 050**	**111 943**
Total equity and liabilities		**235 284**	**214 160**

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

Consolidated Statement of Cash Flows.

1 January — 31 December

Amounts in USD 1 000	Note	2014	2013
Net cash flow from operating activities:			
Income/(loss) before income tax		**31 216**	-13 230
Adjustments for:			
Depreciation and ordinary amortisation	16, 17	**16 291**	17 495
Multi-client amortisation and impairment	16	**14 598**	12 337
Non-cash portion of pension expenses		**-3 452**	1 167
Cost of share-based payments		**2 127**	5 173
Change in trade receivables		**-34 011**	15 480
Change in inventories		**-1 916**	-116
Change in trade payables		**-2 581**	6 326
Change in other working capital		**5 187**	3 955
Taxes paid		**-3 853**	-5 180
Withholding tax expenses		**3 353**	3 231
Amortisation of interest		**4 755**	5 273
Net cash flow from operating activities		**31 714**	**51 911**
Investing activities:			
Purchases of property, plant and equipment		**-19 835**	-10 707
Purchases of intangible assets		**-**	-8 306
Investment in multi-client library		**-30 634**	-26 319
Investment in financial assets		**-8 999**	-
Cash used in investing activities		**-59 468**	**-45 332**
Financial activities:			
Financial lease payments-principal and interest		**-185**	-1 753
Proceeds from issuance of ordinary shares	14	**22**	792
Payment of loan		**-1 224**	-41 873
Proceeds from bonds		**-**	56 550
Proceeds from new loan		**3 310**	-
Payment of interest on bonds		**-4 261**	-4 249
Cash provided by financial activities		**-2 338**	**9 467**
Net change in cash		**-30 092**	**16 046**
Cash balance beginning of period		**55 305**	39 259
Cash balance end of period		**25 213**	55 305
Net change in cash		**-30 092**	**16 046**
Interest paid		**-4 261**	-4 208
Interest received		**687**	477

Consolidated Statement of Changes in Equity.

for the years ended 31 December 2013 and 2014.

Attributable to equity holders of the Company

Amounts in USD 1 000	Note	Share capital share premium and other paid-in capital	Foreign currency translation reserves	Available-for-sale reserve	Actuarial gains/(losses)	Retained earnings	Total equity
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**
Income/(loss) for the year		-	-	-	-	25 886	**25 886**
Other comprehensive income		-	-34	-3 984	-	-	**-4 018**
Total comprehensive income		**-**	**-34**	**-3 984**	**-**	**25 886**	**21 868**
Proceeds from shares issued - options exercised	14	22	-	-	-	-	**22**
Share-based payment	14	2 127	-	-	-	-	**2 127**
Balance at 31 December 2014		**287 398**	**-1 751**	**-3 984**	**2 508**	**-157 937**	**126 234**

ICIQ

INTEGRITY
COMMITMENT
INNOVATION
QUALITY

Integrity in all our relationships
We earn trust through demonstrating integrity. We dare to challenge and we are honest. Our honesty benefits all our relationships.

Innovation in products and services
We set the stage for the future of the industry. We are passionate about developing what our customers need.

Commitment to value creation
We are strong believers in the value our technology creates for both customers and shareholders. We go the extra mile.

Quality in every step
We care about our people, our customers and our deliveries. We don't compromise on safety or on quality.

emgs

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, 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 2015.

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.

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 acquiree 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 operation 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 is classified 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 assets and liabilities are classified as non-current assets and 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 by the Group's entities at their respective functional currency spot rate on the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

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 reporting 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.

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 instalments.

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).

Assets under construction are carried at cost, less accumulated impairment. Depreciation commences when the asset is ready for its intended use.

2.10 Leases

The determination whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. 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.

A multi-client project is considered complete when all components and processes associated with the acquisition and processing of the data are finished, and all components of the data have been properly stored and made ready for delivery to customers.

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. The maximum book value of the multi-client library surveys are summarised as follows:

	Maximum book value
Calendar year after project completion	
Year 0 (the year which the survey is classified as complete)	100%
Year 1	66%
Year 2	33%
Year 3	0%

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.

The Group bases its impairment calculation on best estimate of future cash flows. See Note 16 for more details.

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

a) Initial recognition and measurement

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 investment in shares.

b) Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

Financial assets at fair value through profit or loss

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

The conversion option on the loan agreement to North Energy ASA that was signed in January 2014 and settled in August 2014 was measured at fair value at each reporting date.

Loans and receivables

This category is the most relevant to the Group. 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.

This category generally applies to trade and other receivables.

AFS financial assets

AFS financial assets include equity investment. The equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gain or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. The Company's shares in North Energy ASA are classified as AFS financial assets.

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 reorganisation, and where observable data indicate that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.16 Financial liabilities

a) Initial recognition and measurement

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 and loans and borrowings.

b) Subsequent measurement

For purposes of subsequent measurement financial liabilities are classified in three categories:
- Financial liabilities at fair value through profit or loss
- Loans and borrowings
- Financial guarantee contracts

Loans and borrowings

This category is the only one relevant for the Group. 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.

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 operated a defined benefit plan until 1 December 2014. The plan was funded through payments to an insurance company. The defined benefit obligation was 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, were 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 were not reclassified to profit or loss in subsequent periods.

Net interest were 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 2014:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in other entities

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In accordance with IFRS 10, an investor controls another entity when it is exposed, or has rights, to variable returns from its involvement with the other entity, and has the ability to affect those returns through its power over the entity. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. All entities meeting the definition of a joint venture must be accounted for using the equity method. IFRS 11 had no impact on the Group's financial statements.

IFRS 12 Disclosure of Interest in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 replaces the disclosure requirements that were previously included in IAS 27

Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interest in Joint Ventures. A number of new disclosures are also required. One of the most significant changes is that an entity is now required to disclose the judgments made to determine whether it controls another entity. The standard did not have any significant effect for the Group.

2.23 Standards and interpretations issued, but not yet adopted

The financial statements have been prepared based on standards effective for the year ending 31 December 2014. IASB has issued the following standards/amendments to the following standards that are not yet effective:

- IFRS 9 Financial Instruments (effective date 1 January 2018)
- IFRS 15 Revenue from contract with customers (effective date 1 January 2017)
- IAS 16 & IAS 38 amendments Clarification of Acceptable Methods of depreciation (effective date 1 January 2016)

There has been some early indications that the recognition of pre-funded revenue on multi-client surveys using the percentage of completion method currently applied by the Group will not be allowed under IFRS 15, but this has not yet been concluded. If the current method is not allowed, some of the prefunded revenues will be deferred and recognised when the data is delivered. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

The Group has not yet considered if IFRS 9 Financial Instrument or IAS 16 & IAS 38 amendments will impact the financial statements.

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 and loans and borrowings. 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 also holds available- for-sale (AFS) investments.

The Group has not entered into any hedging transactions in 2014 or 2013.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risk for the Group: interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings and AFS investments.

The sensitivity analysis in the following sections relate to the position as at 31 December 2014 and 2013. 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 2014 and 2013.

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 income and equity as of 31 December 2014 are not affected by changes in the market interest rates. The long term obligations have floating interest rates that are not hedged.

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 has USD as functional currency, hence the foreign currency risks is primarily with respect to NOK in EMGS ASA. Approximately 84% of the Group's sales are denominated in USD, whilst approximately 63% of costs are denominated in USD in 2014. EMGS also has a NOK 350 million bond loan as of 31 December 2014. 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, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities.

The Group's exposure to foreign currency changes on equity and for all other currencies is not material.

	Increase/ decrease in NOK rate	Effect on income/(loss) before tax
2014	+20%	9 235
	-20%	-9 235

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

(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 21 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. Although 2 major customers amounted to a significant part of 2014 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

Liquidity risk is the risk that the Company will not have sufficient liquidity to be able to meet its financial obligations. EMGS' 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 is the Company's objective to balance these sources of liquidity. 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 2014						
Interest bearing loans and borrowings	-	5 393	48 990	-	-	**54 383**
Trade and other payables	-	45 205	-	-	-	**45 205**
Other financial liabilities	-	93	115	-	-	**208**
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**

See Note 24 for interest bearing loans and borrowings.

i) Capital management

For the purpose of the Group's 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 2014 and 31 December 2013.

The Group monitors its capital structure on the basis of a total equity to total assets ratio. As of 31 December 2014 this ratio was 54% (2013:48%). 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. 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 periods. 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.

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).

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 Company replaced its defined benefit plan by a defined contribution plan as of 1 December 2014, hence the pension obligation at 31 December 2014 was 0 (2013: 3 452). Additional information is disclosed in Note 23.

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.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Unrecognised tax assets at 31 December 2014 are 61 893 (2013: 70 415).

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 value in use calculation is based on a DCF model. The cash flows are derived from the financial budget approved by the management and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are disclosed and further explained in Note 16.

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 2014, the carrying amount of capitalised development costs is 1 751 (2013: 1 298).

Note 5 – Joint operations

The Company and TGS have in 2014 signed an agreement to jointly invest in a 3D EM multi-client survey programme covering 19 blocks in the Hoop and South East (BSSE) area of the Barents Sea. EMGS' share of the investment is, according to the agreement, 50%.

TGS and the Company also signed an agreement covering 9 blocks in the Tiddlybank and Nordkapp area in the Barents Sea. Data acquisition for this area will start in 2015.

Finally EMGS and TGS have signed an agreement regarding the Daybreak project in Golf of Mexico. EMGS has a revenue share of 90%. There is no cash investment from TGS, but EMGS will have access to 2D data acquired and owned by TGS to use in the project planning.

In 2013, the Company and TGS signed an agreement covering 17 blocks in the Hoop area of the Barents Sea. EMGS' share of the investment is, according to the agreement, 70%.

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

	2014	2013
Accumulated cost	12 660	1 409
Accumulated amortisation	-7 195	-1 409
Net carrying value	**5 465**	-

EMGS' share of the revenue from the sale of multi-client library of the joint operations in 2014 are 16 762 (2013: 3 132). In additon, 7 195 are recorded as amortisation on these projects in 2014 (2013: 1 409).

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 property, plant and equipment are mainly 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	2014	2013
Europe, Middle East and Africa	97 343	38 558
North and South America	82 592	31 183
Asia and the Pacific Ocean	18 088	74 857
Total	**198 023**	**144 598**

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 2014 (two single external customers in 2013). Total revenues from these customers were in 2014 58 856 and 23 815 (for 2013: 52 133 and 26 420).

Note 7 — Charter hire, fuel and crew expenses

Amounts in USD 1 000	2014	2013
Charter hire and crew expenses	46 563	43 197
Fuel	14 376	13 282
Agent fee	3 159	3 473
Withholding tax cost	2 969	2 372
Capitalisation of multi-client costs	-30 634	-32 056
Other external services	24 867	20 951
Total charter hire, fuel and crew expenses	**61 300**	**51 219**

Note 8 — Employee expenses

Amounts in USD 1 000	2014	2013
Employee expenses		
Salaries	42 785	37 191
Social security tax	4 506	4 572
Pension costs (Note 23)	-1 076	1 802
Other payments	6 830	5 605
Cost of share based payment (Note 15)	2 127	5 174
Total employee expenses	**55 172**	**54 344**
Compensation of key management personnel of the Group		
Salary	1 711	1 084
Bonus paid in the year	96	270
Share options	654	635
Pension benefits	201	81
Other benefits	400	352
Total management remuneration	**3 062**	**2 422**

The average number of full-time equivalents was 299 in 2014 (2013: 288).

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	2014	2013
Rental and housing expenses	3 243	3 953
Consumables and maintenance	2 257	2 000
Consultancy fees *	4 820	5 314
Travel expenses	3 775	3 640
Accrued legal fees	2 000	-
Insurance	1 032	1 087
Marketing	1 414	1 481
Other operating expenses	3 993	4 012
Total other operating expenses	**22 534**	**21 488**
*** Fees to auditor included in consultancy fees:**		
Statutory audit services	249	236
Further assurance services	35	88
Tax advisory services	79	160
Other non-audit services	-	-
Total fees to auditor	**363**	**484**

Note 10 — Research and development costs

Research and development costs consist of 4 273 (2013: 3 292) charged to the income statement as part of operating expenses.

Employee costs capitalised as development amounted to: 1 908 (2013: 2 361)

Note 11 — Financial items

Amounts in USD 1 000	2014	2013
Financial income:		
Interest income on short term bank deposits	687	477
Foreign exchange gains related to loans and receivables	11 886	8 908
Foreign exchange gains related to liabilities at amortised cost	10 608	4 139
Net gains of financial assets	416	-
Total financial income	**23 597**	**13 524**
Financial expenses:		
Interest expense on financial leases and bank borrowings	32	-112
Interest expense on bonds	4 928	4 989
Foreign exchange losses related to loans and receivables	14 373	7 265
Change in fair value of conversion rights	210	-
Other financial expenses	966	2 327
Total financial costs	**20 509**	**14 469**
Net financial items	**3 088**	**-945**

The exchange rate effects in 2014 and 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	2014	2013
Change in deferred tax asset	194	-2 230
Current tax	5 136	4 095
Total income tax expense	**5 330**	**1 865**

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	2014	2013
Income/(Loss) before tax	31 216	-13 230
Tax at the domestic rate of 27%	8 428	-3 704
Non-deductible expenses and other	-641	586
Change in deferred tax asset, not recognised	-7 788	3 119
Foreign income taxes	5 330	1 865
Tax charge	**5 330**	**1 865**

Note 13 — Deferred tax

Amounts in USD 1 000	2014	2013
Deferred taxes detailed		
Property, plant and equipment	-1 485	-658
Inventory	-57	-57
Pension obligations	-	-932
Accrued foreign income taxes and other accruals	-1 234	-620
Loss carried forward	-62 859	-71 350
Total deferred tax (asset)/liability	**-65 635**	**-73 617**
Non-recognised deferred tax assets	**62 628**	**70 415**
Net deferred tax assets	**-3 008**	**-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.

In 2014, the Group has recognised deferred tax assets in Brazil (2013: 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 2014 and 2013.

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

The current tax liabilities of 4 573 mainly consist of accruals for taxes in Brazil (2 185) and Mexico (1 188).

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 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**
At 1 January 2014	199 739 555	7 677	261 209	16 364	**285 249**
Proceeds from shares issued - options exercised	26 000	1	21	-	**22**
Share-based payment	-	-	-	2 127	**2 127**
At 31 December 2014	**199 765 555**	**7 678**	**261 230**	**18 491**	**287 398**

The total authorised number of ordinary shares is 227 742 107 (2013: 226 768 060) with a par value of USD 0.03 (NOK 0.25) per share. All issued shares are denominated in NOK and fully paid.

The largest shareholders as of 31 December 2014:

	Number of ordinary shares	Percentage
Shareholders		
Siem Investments Inc.	22 926 866	11.48%
Perestroika AS	18 889 449	9.46%
Morgan Stanley & Co. LLC	18 576 200	9.30%
Odin Offshore	9 651 299	4.83%
Verdipapirfondet DNB SMB	8 250 000	4.13%
Odin Norge	7 272 410	3.64%
Clearstream Banking S.A.	5 517 308	2.76%
Skagen Vekst	5 029 207	2.52%
Verdipapirfondet DNB Norge (IV)	4 916 670	2.46%
Statoil Pensjon	4 539 841	2.27%
VPF Nordea Kapital	2 823 355	1.41%
J.P. Morgan Chase Bank N.A. London	2 672 385	1.34%
Sydbank A/S	2 535 666	1.27%
Sundt AS	2 426 833	1.21%
UBS AG	2 097 645	1.05%
Sportsmagasinet AS	2 000 000	1.00%
Verdipapirfondet DNB Navigator	1 801 343	0.90%
Bruheim	1 605 088	0.80%
Hard Work Invest AA	1 517 012	0.76%
DNB Livsforsikring ASA	1 429 556	0.72%
Other	73 287 422	36.69%
Total	**199 765 555**	**100.00%**

Note 15 — Share based payment transactions

Share options are granted to employees.

The expense recognised for employee services during the year is:

Amounts in USD 1 000	2014	2013
Expense arising from share based payment transactions	2 127	5 173

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 option granted during the years ended 31 December 2014 and 2013:

	2014	2013
Expected volatility	60%	60%
Risk free interest rate	2.22%	1.45%
Expected life of options (years)	5.8	4
Weighted average share price (USD)	0.96	1.50

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:

	2014		2013	
	Average exercise price in USD per share	**Options**	Average exercise price in USD per share	Options
At 1 January	**2.02**	**10 578 507**	2.45	8 329 507
Granted	**0.96**	**3 085 000**	1.52	4 172 000
Exercised	**0.68**	**26 000**	0.94	859 500
Forfeited	**1.45**	**990 000**	2.42	1 017 000
Expired	**0.78**	**500**	3.05	46 500
Cancelled	**-**	**-**	-	-
At 31 December	**1.51**	**12 647 007**	**2.02**	**10 578 507**
Exercisable at 31 December	**1.55**	**6 648 807**	**1.91**	**4 411 907**

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

2014

	In USD per share	Options
2015	4.04	20 000
2016	0.58	619 000
2017	0.78	1 302 000
2018	1.57 and 1.86	639 007
2019	2.10, 2.46 and 2.60	3 835 000
2020	1.14 and 1.21	3 272 000
2021	0.57, 0.93, 0.99 and 1.01	2 960 000
		12 647 007

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 2014 is 4.57 years (2013: 5.11 years).

The weighted average fair value of options granted during the year was USD 0.53 (2013: USD 0.71).

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
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**
Year ended 31 December 2014						
Opening carrying value	1 540	315	1 497	28 108	**31 460**	14 422
Additions	-	-	-	20 247	**20 247**	-
Transferred from assets under construction to intangible assets	1 562	-	-	-	**1 562**	-
Accumulated costs on disposals	-8	-	-	-	**-8**	-
Amortisation charge	-1 242	-315	-137	-12 595	**-14 289**	-
Accumulated depreciation on disposals	8	-	-	-	**8**	-
Impairment	-	-	-	-2 002	**-2 002**	-
Closing carrying value	**1 860**	**-**	**1 360**	**33 758**	**36 978**	**14 422**
At 31 December 2014						
Accumulated cost	12 714	2 321	3 667	99 803	**118 505**	14 422
Accumulated amortisation and impairment	-10 854	-2 321	-2 307	-60 045	**-79 525**	-
Net carrying value	**1 860**	**-**	**1 360**	**33 758**	**38 980**	**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.

The Group recorded an impairment of the multi-client library in 2014. Based on an updated sales forecast, the Group estimated the recoverable amount for the Sunshine project to be 2 888. This compared to a carrying amount of the library of 4 890, resulting in a multi-client impairment of 2 002. No impairment was recorded in 2013, as no indication of impairment was identified. Multi-client revenue recognised in 2014 amounted to 60 801 (2013: 33 314).

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 in December 2014 and 2013. The Group considers the relationship between its market capitalisation and its book value when reviewing for indicators of impairment. As at 31 December 2014, the market capitalisation of the Group was below the book value of its equity. As at 31 December 2013, the fair value of equity was 256 854 , while the book value of equity was 102 217.

Goodwill has not been allocated since there is only one CGU within the Group. The recoverable amount of the Group, 122 753 as of 31 December 2014, has been determined based on cash flow projections from financial budgets approved by management. The discount rate applied to cash flow projections is 10% and the cash flows beyond five years are extrapolated using a 2% growth rate. As a result of this analysis, management has not identified any indication of impairment of goodwill.

The calculation of the recoverable amount is most sensitive to the following assumptions:

- Discount rate
- Operating profit margins

Discount rate

The discount rate represent the current market assessment of the risks spesific to the industry. The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. The beta factor is in line with the industry beta.

Operating profit margins

The operating profit margin are based on average growth in revenues and expenses. Revenues are expected to grow 7% and expenses 5% during the budget period. A decrease in demand can lead to a decline in the operating profit margin.

Sensitivity analysis for key assumptions

The table below shows how the recoverable amount of goodwill will be affected by changes in the various assumptions, given that the remainder of the assumptions are constant.

Assumptions		Changes in recoverable amounts
Discount rate	+1%	- 38 MUSD
	+3%	- 102 MUSD
Growth rate revenues/ expenses	5%/0%	+ 179 MUSD
	0%/0%	-202 MUSD

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 2013					
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**
Year ended 31 December 2014					
Opening carrying value	21 377	4 711	1 595	**27 683**	19 200
Additions	436	284	-	**720**	18 967
Accumulated costs on disposals	-95	-55	-	**-150**	-
Transfer from asset under construction to property, plant and equipment	4 817	366	258	**5 441**	-7 003
Depreciation charge	-11 694	-2 251	-652	**-14 597**	-
Accumulated depreciation on disposals	95	55	-	**150**	-
Closing carrying value	**14 936**	**3 110**	**1 201**	**19 247**	**31 164**
At 31 December 2014					
Accumulated cost	115 268	22 674	12 375	**150 317**	31 164
Accumulated depreciation	-100 332	-19 564	-11 174	**-131 070**	-
Net carrying value	**14 936**	**3 110**	**1 201**	**19 247**	**31 164**

Assets under construction

Assets under construction are internal capital expenditure projects that are not completed. These projects are mainly development and production of acquisition equipment, but also interpretation and modelling software.

JIP

EMGS is working on a Joint Industry Project ("the JIP"), supported by Shell and Statoil, for developing the Next Generation EM equipment. The project has been ongoing since 2012 and continued throughout 2014. The carrying value of the JIP as of 31 December 2014 was 25 632.

Other equipment developments

In addition to the JIP project, EMGS continuously works on incremental improvements to the EM equipment, including receivers, the source and the navigation system, supporting a more efficient operation and improved data quality. The remaining carrying value under assets under construction consists of such improvements projects.

Finance leasing included in property, plant and equipment:

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

2014				
Cost of capitalised finance leases	-	721	-	**721**
Accumulated depreciation	-	-721	-	**-721**
Net carrying value	**-**	**-**	**-**	**-**

The amount of property, plant & equipment pledged as security for liabilities has a net carrying value of 0 as of 31 December 2014 (2013: 721).

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

Note 18 — Financial assets

North Energy agreement

The Company and North Energy ASA signed an agreement worth NOK 100 million (USD 16.1 million) in January 2014. The agreement included sale of 3D EM data from the Group's existing multi-client data library in the Barents Sea and sale of services related to EM inversion and integrated interpretation. In addition, North Energy ASA committed to pre-funding of a 2014 Barents Sea programme.

The payment for services and prefunding of NOK 25 million was made in cash, while the payment for the 3D EM data was in the form of a convertible bond of NOK 75 million issued by North Energy ASA with a strike price of NOK 4.15, coupon of 6% and with a maturity of 6 months. The conversion right of the loan was subject to a fair value adjustment. A negative change in fair value of the conversion right of 210 is booked under Net financial items in 2014.

The loan was settled in August 2014 when EMGS converted NOK 28.4 million of the loan into 6,851,463 shares in North Energy, at a strike price of NOK 4.1451. The remaining of the convertible loan, NOK 46.6 million was settled in cash.

After the settlement date, changes in the value of the shares in North Energy ASA are recognised in Other comprehensive income. The value of the Group's shares in North Energy ASA as of 31 December 2014 totals 4 766 and the change in value during settlement date recognised in Other comprehensive income totals 3 984.

Note 19 — Other receivables

Amounts in USD 1 000	2014	2013
Prepayments	4 722	5 317
Receivables VAT and taxes	11 774	7 679
Deferred mobilisation expenses	78	2 978
Other receivables	2 075	1 164
Total other receivables	**18 649**	**17 138**

Note 20 — Spare parts, fuel, anchors and batteries

Amounts in USD 1 000	2014	2013
Equipment components and parts, at cost	10 262	8 405
Anchors and batteries, at cost	1 901	1 824
Fuel, at cost	2 743	2 761
Total spare parts, fuel, anchors and batteries	**14 906**	**12 990**

Note 21 — Trade receivables

Amounts in USD 1 000	2014	2013
Accounts receivable	54 679	27 717
Accrued revenues	10 852	3 803
Total trade receivables	**65 531**	**31 520**

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 2014 EMGS did not find it necessary to make any provision for doubtful trade receivables (2013: 0).

The 766 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
2014	54 679	49 201	3 747	950	5	10	766

Note 22 — Cash and cash equivalents

Amounts in USD 1 000	**2014**	2013
Cash	**25 213**	55 305
Restricted cash current	**1 400**	1 240
Total cash and cash equivalents	**26 613**	**56 545**

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 23 — Employee benefit obligations

The Company is required to have an occupational pension plan 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.

EMGS has replaced its defined benefit plan by a defined contribution plan for Norwegian employees in EMGS ASA as of 1 December 2014 . The change in pension plan means that the defined benefit plan is terminated by issuance of paid-up policies for previously earned rights in the plan.

The new defined contribution plan implies that EMGS pays a quarterly amount to the employees’ pension account. The following contribution rates are defined; 7 % contribution for salaries between 0 and 7.1 G and 25.1 % contribution for salaries between 7.1 and 12 G (G=NOK 88 370). In connection with the termination of the defined benefit plan, the Company introduced a compensation agreement for employees that suffered a calculated loss as a result of the replacement.

Before 1 December 2014, the employees employed in Norway were covered by the Company’s defined benefit plan. Through this plan the member was guaranteed a certain level on its pension payments based on their last salary. The plan was insured by an insurance company. The level of the pension payment was 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 2014 there are 156 active and 1 retired employees covered by the pension plan (2013: 146 active and 1 retired).

Amounts in USD 1 000	2014	2013
Net employee defined benefit liability:		
Employee benefit obligation	-	3 452

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	2014	2013
Net benefit expense (recognised as employee expenses in consolidated income statement):		
Current service cost	1 519	1 509
Interest cost	73	54
Administration costs	15	15
Social security tax	227	223
Settlement of pension plan	-2 909	-
Net benefit expense	-1 076	1 802

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

Amounts in USD 1 000	2014	2013
Defined benefit obligation at 1 January	9 449	7 819
Service cost	1 733	1 740
Net interest	331	62
Settlement of pension plan	-10 940	-
Sub-total included in profit or loss	-8 877	1 802
Benefits paid	-18	-20
Actuarial changes arising from changes in demographic assumptions	-	410
Actuarial changes arising from changes in financial assumptions	-	460
Experience adjustments	-	-193
Foreign exchange translation differences	3	-98
Sub-total included in OCI	-15	560
Social security tax	-238	-230
Foreign exchange translation differences	-318	-502
Defined benefit obligation at 31 December	-	9 449
Fair value of plan assets at 1 January	5 124	5 124
Net interest	230	224
Conversion of pension plan	-8 031	-
Sub-total included in profit or loss	-7 800	224
Benefits paid	-18	-20
Return on plan assets (excluding amounts included in net interest expense)	99	-68
Experience adjustments	-99	-428
Foreign exchange translation differences	3	20
Sub-total included in OCI	-15	-496

Amounts in USD 1 000	2014	2013
Contributions by employer	**2 276**	1 933
Social security tax	**-281**	-239
Foreign exchange translation differences	**697**	-550
Fair value of plan assets at 31 December	**-**	**5 997**
Defined benefit obligation included in OCI	**-15**	560
Fair value of plan assets included in OCI	**-15**	-496
Total included in OCI	**-**	**1 055**
Defined benefit obligation at 31 December	**-**	9 449
Fair value of plan assets at 31 December	**-**	5 997
Employee benefit obligation at 31 December	**-**	**3 452**

The principal actuarial assumptions used are as follows:

	2014	2013
Discount rate*	**3.00%**	4.00%
Expected future salary increases	**3.25%**	3.75%
Expected rate of pension increases	**3.00%**	3.50%
Expected rate of regulation of pensions under payment	**0.10%**	0.60%
Social security tax - rate	**14.10%**	14.10%
Life expectation for pensioners at the age of 65:		
Male	**21.3**	20.4
Female	**24.4**	23.2

*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 2014 is in accordance with guidance published by the Norwegian Accounting Standards Board in 31 August 2014 due to discontinuation of the defined benefit plan as of 1 December 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.

Pension plan asset allocation:

	2014	2013
Shares	**7.20%**	6.80%
Bonds and money market	**38.80%**	39.00%
Hold to maturity bonds	**32.60%**	35.20%
Real estate	**14.20%**	14.30%
Other	**7.20%**	4.70%
Total	**100.00%**	**100.00%**

Defined contribution plan

Substantially all employees are eligible to participate in pension plans in accordance with local industrial, tax and social regulations. These plans are considered defined contribution plans from 1 December 2014.

The Company's contribution to the Norwegian defined contribution plans for the year ended 31 December 2014 were 1 153 (covering December only).

Aggregate employer contribution under the Group's other contribution plans equalled 1 725 and 1 343 in 2014 and 2013 respectively.

Note 24 — Borrowings

Amounts in USD 1 000	Interest rate	Maturity	2014	2013
Non-current				
NOK 350 000 000 bond	3 month NIBOR + 6.00%	27 June 2016	**46 744**	56 364
Finance lease liabilities	3 month NIBOR + 3.50% and 7.60%	2-3 years	**115**	264
Total			**46 859**	**56 628**
Current				
Secured overdraft	7.00%	At request	**1 594**	-
Finance lease liabilities	3 month NIBOR + 3.50% and 7.60%	Up to 1 year	**93**	128
Total			**1 687**	**128**
Total borrowings			**48 546**	**56 756**

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 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.

In February 2015, EMGS entered into a forward rate agreement to secure the unrealised foreign exchange gain arising from the NOK 350 million bond.

Secured overdraft

On 6 February 2014, EMGS signed an overdrafts agreement to fund the purchase of shares in North Energy ASA.

The Company's shares in North Energy ASA serve as the collateral for the overdrafts.

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	2014	2013
6 months or less	**46 952**	56 756
6-12 months	**-**	-
1-5 years	**-**	-
Over 5 years	**-**	-
Total	**46 952**	**56 756**

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	**2014**	2013
Between 1 and 3 years	**46 859**	56 628
Between 4 and 5 years	**-**	-
Over 5 years	**-**	-
Total	**46 859**	**56 628**

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

Amounts in USD 1 000	Carrying amounts		Fair values	
	2014	2013	**2014**	2013
NOK 350 000 000 bond	46 744	56 364	46 744	56 364
Leasing liabilities	115	264	115	264

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	**2014**	2013
USD denominated	**-**	-
NOK denominated	**48 546**	56 756
Total	**48 546**	56 756

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

	2014	2013
NOK 350 000 000 bond	**8.97%**	8.97%
Leasing liabilities	**7.87%**	7.58%

Note 25 — 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 13 362 (2013: 15 942).

Note 26 — Provisions

The Group recognises a provision for prepayments from two customers in a joint industry project. EMGS and the two customers have decided 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 13 299 as provision for JIP prepayments per 31 December 2014 (2013: 7 164).

The Group has made a precautionary provision of 2 000 to cover PGS' legal fees in the Oslo City Court as of 31 December 2014. See Note 35 for further details.

Note 27 — Other short term liabilities

Amounts in USD 1 000	2014	2013
Accrued expenses	7 322	6 628
Holiday pay	2 491	2 809
Social security taxes and other public duties	8 632	12 426
Other short term liabilities	8 825	4 432
Total other short term liabilities	**27 270**	**26 295**

Accrued expenses are generally on 30 days payment terms.

Note 28 — Finance lease obligations

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

Amounts in USD 1 000	2014	2013
Finance lease liabilities – minimum lease payments:		
No later than 1 year	136	157
After 1 year and no more than 5 years	118	300
After more than 5 years	-	-
Total minimum lease payments	**254**	**457**
Future finance charges on finance leases	-46	-65
Present value of finance lease liabilities	**208**	**392**
The present value of finance lease liabilities is as follows:		
No later than 1 year	115	128
After 1 year and no more than 5 years	93	264
After more than 5 years	-	-
Total present value of finance lease liabilities	**208**	**392**
Contract terms regarding property rights at expiration of the contract:		
The ownership will be negotiated at the end of the leasing period.		

Note 29 — 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	**2014**	2013
Office premises rental guarantees	-	215
Guarantees on client contracts	**10 691**	19 867
Total guarantees	**10 691**	**20 082**

Guarantees on office premises are valid as long as the contracts are active. All guarantees are secured by bank guarantees.

Note 30 — 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	**2014**	2013
No later than 1 year	**37 378**	33 784
After 1 year and no more than 5 years	**35 916**	33 915
After more than 5 years	**2 263**	2 909
Total operating lease commitments	**75 557**	**70 608**

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	**2014**	2013
Charter hire	**40 483**	37 022
Office premises	**2 556**	3 108
Total	**43 039**	**40 130**

Note 31 — 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. 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 and the UK. PGS has filed counterclaims versus EMGS where they claim that the patent is invalid. The hearing took place in Oslo City Court in the fourth quarter of 2014. See Note 35 for further description of the Oslo City Court decision. The hearing in the UK is scheduled for March 2016.

Note 32 — 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	2014	2013
Income/(loss) attributable to equity holders of the Company	25 886	-15 095
Basic earnings per share	0.13	-0.08
Diluted earnings per share	0.13	-0.08
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands)	199 757	199 047
Effect of dilutive potential shares:		
Share options	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands)	199 757	199 047

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

Note 33 — Related party transactions

The Company has an agreement with Ocean Seismic de Mexico S.A. de C.V. (Ocean Seismic). Ocean Seismic will provide marketing services on behalf of the Company relating to work for PEMEX.

Under the terms of the agreement, Ocean Seismic is entitled to receive 5% (2013: 5%) commission on each PEMEX contract obtained by the Company. EMGS' former Chairman of the Board, Bjarte H. Bruheim, holds 16% of the shares in Ocean Seismic.

The Company also buys services from Fedem Technology AS (Fedem) where EMGS' former 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	2014	2013
Purchases of goods and services		
Ocean Seismic	2 969	1 321
Fedem	36	76

Year end balances arising from purchases of goods:

Amounts in USD 1 000	**2014**	2013
Payables to related parties:		
Ocean Seismic	**-**	747
Fedem	**-**	-

Note 34 — Investment in subsidiaries

Company	Share ownership/ voting rights 2014	Share ownership/ voting rights 2013	Equity 31 Dec 2014	Equity 31 Dec 2013	Location
EMGS Americas 1 AS	100%	100%	-44	-144	Trondheim, Norway
EMGS Americas 2 AS	100%	100%	7	10	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100%	100%	-280	184	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	100%	100%	4 799	5 423	Rio de Janeiro, Brasil
EMGS Americas Inc	100%	100%	-1 288	-1 690	Delaware, USA
EMGS International B.V.	100%	100%	-110	-115	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	1%/100%	1%/100%	1 037	56	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100%	100%	336	-19	Kuala Lumpur, Malaysia
EMGS Australia Pty Ltd	100%	100%	99	101	Perth, Australia
EMGS Global AS	100%	100%	1 693	1 849	Trondheim, Norway
EMGS Sea Bed Logging Mexico S.A. de C.V.	100%	100%	5 735	20	Col. Del Valle, Mexico
EMGS Shipping Mexico S. de R.L. de C.V.	49%/100%	49%/100%	777	-85	Col. Del Valle, Mexico
EMGS Services Mexico S.A. de C.V.	99%	99%	215	51	Col. Del Valle, Mexico
EMGS Labuan Ltd	100%	100%	750	714	Labuan, Malaysia
EMGS Asia Pacific Labuan Ltd	100%	0%	-731	-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%	12 564	12 567	Trondheim, Norway
Ohm Ltd	100%	100%	2 474	2 707	Aberdeen, Great Britain
Ohm Surveys SDN BHD	100%	100%	-	-	Kuala Lumpur, Malaysia
EM Multi-client AS	100%		1 038	-	Trondheim, Norway
Electromagnetic Geoservices Canada Inc	100%	-	467	-	British Columbia, Canada

The Group consolidates Electromagnetic Geoservices Malaysia Sdn Bhd 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 35 — Events after the reporting period

Change of CEO

On 7 January 2015, the Board of Directors of EMGS appointed Bjarte Bruheim as new CEO of the Company. Bjarte Bruheim has served as Executive Chairman of EMGS since July 2004 until 23 December 2014, and he has extensive experience from the oil service sector over the past 30 years.

Consequently, the Company and Roar Bekker agreed that Bekker resigns from the Company. He has held the position as CEO of EMGS since 26 May 2009. Bekker is entitled to severance pay corresponding to 18 months' remuneration. In addition, Mr. Bekker has the right to exercise the 670,000 options vested as of 7 January 2015 until the expiry of these options. The remainder of the options held at the time of the resignation, a total of 570,000 option, will lapse.

Norwegian court's ruling on patent invalidity

On 13 February, EMGS received the decision of the Oslo City Court on the claims against Petroleum Geo-Services (PGS) on the basis that PGS used its Towed Streamer EM in in violation of one of EMGS' patents in Norway. EMGS' Norwegian patent was found to be invalid by Oslo City Court. EMGS has decided to appeal the decision.

If EMGS loses the appeal, EMGS shall cover PGS' legal fees of approximately USD 2.0 million. Company has made a precautionary provision of USD 2.0 million under other operating expenses in the 2014 accounts. EMGS' legal fees for the first instance are expensed as incurred.

EMGS successfully defended the patent against claims of invalidity from Schlumberger Holding Ltd in the Netherlands, in February 2008 and in the UK Court of Appeal in July 2010 and through several oppositions in the European Patent Office appeal division in December 2011. The decision of the Oslo City Court on validity of this patent is contrary to these previous international decisions all made by specialised patent judges. The patent remains valid in 23 countries.

Forward rate agreement to secure foreign exchange gain

On 2 March 2015, EMGS entered into a forward rate agreement to purchase NOK 350 million in exchange for USD 46.1 million, to secure the unrealised foreign exchange gain arising from the Company's existing NOK 350 million bond loan.

The bond loan was initially entered into when the exchange rate was NOK/USD 6.07, resulting in a loan obligation at that time of USD 57.7 million.

Income Statement.

1 January — 31 December

Amounts in NOK 1 000	Note	2014	2013
Operating revenues			
Contract sales	1, 11	**899 590**	849 996
Multi-client sales	1, 11	**335 573**	176 949
Total operating revenues		**1 235 163**	**1 026 945**
Operating expenses			
Charter hire, fuel and crew expenses	4	**458 439**	259 812
Employee expense	5, 6	**313 546**	291 995
Depreciation and ordinary amortisation	7	**89 841**	94 577
Multi-client amortisation	7	**38 476**	73 328
Other operating expenses		**145 489**	122 181
Total operating expenses		**1 045 791**	841 894
Operating income		**189 372**	**185 051**
Financial income and expenses			
Financial income	16	**95 338**	83 633
Financial expenses	16	**40 191**	45 049
Net financial items		**55 147**	**38 584**
Income/(loss) before income tax		**244 519**	**223 635**
Income tax expense	8	**-**	-
Income/(loss) for the year		**244 519**	**223 635**

Balance Sheet.

AS at 31 December

Amounts in NOK 1 000	Note	2014	2013
Non-current assets			
Intangible assets	7	**88 675**	120 082
Property, plant and equipment	7, 9	**108 150**	153 636
Assets under construction	7	**187 313**	108 970
Investments in subsidiaries	10	**117 963**	118 137
Financial assets	19	**26 468**	-
Total non-current assets		**528 569**	**500 825**
Current assets			
Spareparts, fuel, anchors and batteries	3	**84 463**	62 251
Trade receivables	9, 11, 12	**377 354**	45 616
Receivables group companies	12	**604 291**	504 072
Other receivables		**42 223**	61 373
Cash and cash equivalents		**130 478**	258 119
Restricted cash	13	**10 410**	7 588
Total current assets		**1 249 219**	**939 019**
Total assets		**1 777 788**	**1 439 844**

Balance Sheet.

1 January — 31 December

Amounts in NOK 1 000	Note	2014	2013
EQUITY			
Paid-in capital			
Share capital	14, 15	**49 941**	49 934
Share premium	14, 15	**886 687**	886 563
Other paid-in capital	14, 15	**108 066**	94 552
Total paid-in capital		**1 044 694**	**1 031 049**
Retained earnings			
Other equity (uncovered loss)	15	**30 534**	-185 541
Total retained earnings		**30 534**	**-185 541**
Total equity		**1 075 228**	**845 508**
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	5	**-**	21 126
Provisions	18	**113 747**	43 843
Borrowings	7,17	**348 302**	346 559
Total non-current liabilities		**462 049**	**411 528**
Current liabilities			
Trade payable		**79 555**	92 562
Current tax liability	8	**5 074**	11 910
Public taxes and duties payable		**16 333**	18 849
Other current liabilities		**126 912**	58 701
Borrowings		**12 637**	786
Total current liabilities		**240 511**	**182 808**
Total liabilities		**702 560**	**594 336**
Total equity and liabilities		**1 777 788**	**1 439 844**

Cash Flow Statement.

1 January — 31 December

Amounts in NOK 1 000	2014	2013
A) Cash flow from operating activities		
Funds sourced from operations *)	**416 377**	443 952
Changes in inventories, accounts receivable and accounts payable	**-366 957**	192 858
Changes in working capital	**26 741**	-403 597
Net cash flow from operating activities	**76 161**	**233 213**
B) Cash flow from investing activities		
Purchase of property, plant and equipment	**-129 766**	-238 618
Investment in financial assets	**-54 912**	-
Net cash flow from investing activities	**-184 678**	-238 618
C) Cash flow from financial activities		
Proceeds from issuance of ordinary shares	**131**	4 746
Proceeds from new loan	**20 000**	343 350
Repayment of loan	**-8 149**	-250 811
Payment of interest on loans and financial leases	**-28 285**	-34 868
Net cash flow from financial activities	**-16 302**	**62 417**
A+B+C) Net change in cash and cash equivalents	**-124 818**	57 012
Cash and cash equivalents at 01.01	**265 706**	208 694
Cash and cash equivalents at 31.12	**140 888**	**265 706**
Calculation of cash and cash equivalents		
Cash and cash equivalents	**130 478**	258 119
Restricted cash	**10 410**	7 588
Cash and cash equivalents at 31.12	**140 888**	**265 707**
***) Calculation of funds sourced from operations**		
Income/(loss) before income tax	**244 519**	223 635
Depreciation and amortisation	**128 317**	167 906
Actuarial gains/(losses)	**-**	-6 899
Cost of share-based payment	**13 514**	30 969
Amortisation of interest	**30 027**	28 342
Funds sourced from operations	**416 377**	**443 952**

Notes.

Accounting Principles

The financial statements have been prepared in accordance with 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.

Interest in joint operations

A joint operation 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.

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.

Balance sheet classification

Current assets and short term liabilities consist of receivables and payables due within one year, and items related to the inventory cycle. Other balance sheet items are classified as fixed assets / long term liabilities.

Current assets are valued at the lower of cost and fair value. Short term liabilities are recognised at nominal value.

Fixed assets are valued at cost, less depreciation and impairment losses. Long term liabilities are recognised at nominal value.

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.

Property, plant and equipment

Property, plant and equipment is capitalised and depreciated linearly over the estimated useful life. Significant fixed assets which consist of substantial components with dissimilar economic life have been unbundled; depreciation of each component is based on the economic life of the component. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property, plant and equipment are added to the acquisition cost and depreciated with the related asset. If carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the greater of the net realisable value and value in use. In assessing value in use, the discounted estimated future cash flows from the asset are used.

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.

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.

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 27 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 operated a defined benefit plan until 1 December 2014, when it was replaced by a defined contribution plan. The plan was funded through payments to an insurance company. The defined benefit obligation was 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, were 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 were not reclassified to profit or loss in subsequent periods.

Net interest was 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 presented as other paid-in capital in the balance sheet. Provisions are made for social security taxes 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 and bank deposits.

Note 1 — Operating revenues

Amounts in NOK 1 000	**2014**	2013
Geographical distribution		
Europe, Middle East and Africa	**630 091**	213 563
North and South America	**498 438**	391 291
Asia and Pacific Ocean	**106 634**	422 090
Total	**1 235 163**	1 026 945

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

Note 2 — Interest in joint operations

The Company and TGS have in 2014 signed an agreement to jointly invest in a 3D EM multi-client survey programme covering 19 blocks in the Hoop and South East (BSSE) area of the Barents Sea. EMGS' share of the investment is, according to the agreement, 50%.

TGS and the Company also signed an agreement covering 9 blocks in the Tiddlybank and Nordkapp area in the Barents Sea. Data acquisition for this area will start in 2015. The EMGS' share is 50%.

In 2013, the Company and TGS signed an agreement covering 17 blocks in the Hoop area of the Barents Sea. EMGS' share of the investment is, according to the agreement, 70%.

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

Amounts in NOK 1 000	**2014**	2013
Accumulated cost	**1 194**	8 284
Accumulated amortisation	**-1 194**	-8 284
Net carrying value	**-**	-

EMGS' share of the revenue from the sale of multi-client library of the joint operations in 2014 is 60 572 (2013: 18 414). In addition, 1 194 is recorded as amortisation on these project in 2014 (2013: 8 284).

Note 3 — Spareparts, fuel, anchors and batteries

Amounts in NOK 1 000	**2014**	2013
Inventory type		
Equipment, components and parts	**61 572**	47 223
Anchors and batteries	**10 528**	7 989
Fuel	**12 363**	7 038
Total	**84 463**	**62 251**

Note 4 — Operating leases

Amounts in NOK 1 000	**2014**	2013
Operating leases recognised as expense in the period:		
Charter hire	**242 775**	218 826
Office premises	**10 337**	11 291
Total	**253 112**	**230 117**

Note 5 — Pensions

The Company is required to have an occupational pension plan 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.

EMGS has replaced its defined benefit plan by a defined contribution plan for Norwegian employees as of 1 December 2014. The change in pension plan means that the defined benefit plan is terminated by issuance of paid-up policies for previously earned rights in the plan.

The new defined contribution plan implies that EMGS pays a quarterly amount to the employees' pension account. The following contribution rates are defined; 7 % contribution for salaries between 0 and 7.1 G and 25.1 % contribution for salaries between 7.1 and 12 G (G=NOK 88 370). In connection with the termination of the defined benefit plan, the Company introduced a compensation agreement for employees that suffered a calculated loss as a result of the replacement.

Before 1 December 2014, the employees employed in Norway were covered by the Company's defined benefit plan. Through this plan the member was guaranteed a certain level on its pension payments based on their last salary. The plan was insured by an insurance company. The level of the pension payment was 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 2014 there are 156 active and 1 retired employee covered by the pension plan (2013: 146 active and 1 retired).

Components of net pension expense including social security tax:

Amounts in NOK 1 000	**2014**	2013
Service cost and benefit changes cost	**-7 306**	10 228
Financial cost	**523**	365
Net pension expense	**-6 783**	**10 593**

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

Amounts in NOK 1 000	**2014**	2013
Net employee benefit obligation 1 January	**21 126**	12 283
Net pension expense	**-6 783**	10 593
Employer contribution	**-14 343**	-8 649
Remeasurements loss/(gain)	**-**	6 899
Net employee benefit obligation 31 December	**-**	**21 126**
Principal assumptions:		
Discount rate*	**3.00%**	4.00%
Expected future salary increases	**3.25%**	3.75%
Expected adjustment in National Insurance base rate	**3.00%**	3.50%
Expected rate of pension increases	**0.10%**	0.60%
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 2014 was 196.

Amounts in NOK 1 000	**2014**	2013
Employee expenses:		
Salaries	**266 196**	214 529
Payroll tax	**21 780**	19 937
Pension costs	**-6 783**	10 593
Other payments	**32 354**	46 936
Total	**313 546**	**291 995**

Executive Management remuneration

Amounts in NOK 1 000		Salaries	Bonus	Share options*	Pension benefit	Other benefits**	**Total remuneration**
Executive Management							
Roar Bekker, CEO	2014	2 899	-	1 252	346	395	**4 891**
Svein T. Knudsen, CFO	2014	2 138	201	985	260	140	**3 725**
David Neser, COO	2014	2 053	194	764	266	1 955	**5 232**
Ole Andre Heggheim, EVP Strategic. Dev	2014	1 848	208	425	155	18	**2 654**
Vincent Vieugue, EVP Sales & Marketing	06.01.14 -31.12.14	1 844	-	696	238	15	**2 792**
Total		**10 782**	**603**	**4 121**	**1 266**	**2 522**	**19 294**

*Share options are costs posted as an expense under the Company's option program in 2014.

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

Accrued bonuses for the Executive Management as of 31 December 2014 was 3 939.

Payment after termination of employment

The CEO has a severance agreement which pays 18 months salary and benefits after termination of the contract. The CEO retired in January 2015. No provision for severance pay was made as of 31 December 2014. Other members of the Executive Management have different agreements which vary from 12 months pay to no 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
Board of Directors			
Bjarte H. Bruheim	Executive Director and Chairman of the Board	01.01 - 23.12	3 466
Jeffrey Harris	Non-executive Director	01.01 - 23.12	284
Maria Moræus Hanssen	Non-executive Director	01.01 - 03.06	134
Berit Svendsen	Non-executive Director	01.01 - 23.12	284
Stig Eide Sivertsen	Non-executive Director	01.01 - 31.12	300
Guro Høyaas Løken	Non-executive Director	03.06 - 31.12	157
Christel Brønstad	Employee's representative	01.01 - 31.12	-
Svein Ellingsrud	Employee's representative	01.01 - 31.12	-

The amounts listed under Directors' fee have been expensed in 2014.

The employee's representatives are not paid directors fee. Their remuneration as employees has not been included in the table above.

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 exer-cise price -A	Number of options CB	Weighted average exercise price B	Weighted average remaining contractual life
Executive Management									
Roar Bekker	960 000	250 000	-	-		-	1 210 000	9.89	4.42
Svein T. Knudsen	635 000	175 000	-	-		-	810 000	11.44	4.77
David Neser	500 000	125 000	-	-		-	625 000	10.79	5.05
Ole A. Heggheim	200 000	100 000	-	-		-	300 000	8.13	5.62
Vincent Vieugue	-	325 000					325 000	7.08	6.10
Board of Directors									
Christel Brønstad	10 000		-	-		-	10 000	12.24	3.07
Svein Ellingsrud	152 000	50 000	-	-		-	202 000	11.12	5.17

A - average exercise price for options exercised during 2014.
B - average exercise price for number of options by 31 December 2014.

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	**2014**	2013
Auditor expenses		
Statutory audit services (excl VAT)	**1 200**	1 200
Tax advisory services (excl VAT)	**464**	804
Further assurance services	**218**	519
Other non-audit services	**-**	-
Total fees to auditor	**1 882**	**2 523**

Note 7 — Tangible and intangible assets

Amounts in NOK 1 000	Property, plant and equipment	Patents	Software licenses etc.	Multi-client library	**Total**	Assets under construction
Acquisition cost at 1 January 2014	816 526	26 416	58 977	385 051	**1 286 970**	108 970
Purchases	36 625	-	9 536	5 263	**51 424**	122 476
Disposals	-480	-	-	-	**-480**	-44 133
Acquisition cost at 31 December 2014	852 671	26 416	68 513	390 314	**1 337 914**	187 313
Accumulated depreciation 1 January 2014	662 890	17 284	50 630	282 448	**1 013 252**	-
Depreciation/amortisation for the year	82 111	761	6 968	38 476	**128 316**	-
Disposals	-480	-	-	-	**-480**	-
Accumulated depreciation 31 December 2014	744 521	18 045	57 598	320 924	**1 141 088**	-
Net carrying value at 31 December 2014	**108 150**	**8 371**	**10 915**	**69 390**	**196 826**	**187 313**
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).

Assets under construction are internal capital expenditure projects that are not completed. These projects are mainly development and production of acquisition equipment, but also interpretation and modelling software.

Addition of self developed assets in 2014 amounted to 42 528 (2013: 43 145)

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	**2014**	2013
Capitalised in the balance sheet 31 December	**4 015**	4 015
Accumulated depreciation	**-4 015**	-2 677
Net carrying value	**-**	**1 338**
Depreciation	1 338	1 599

	2014		2013	
Amounts in NOK 1 000	**Nominal value**	**Present value**	Nominal value	Present value
Leases due within 12 months	**1 009**	**854**	963	786
Leases due within the next 13 - 36 months	**880**	**692**	1 838	1 617
Remaining debt on leasing contracts 31 December	**1 889**	**1 546**	**2 801**	**2 403**

Amounts in NOK 1 000	2014	2013
Specification of R&D expenses:		
External expenses	**5 478**	4 628
Materials	**1 424**	2 187
Internal hours	**20 095**	9 685
Total R&D expenses	**26 997**	**16 500**

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	2014	2013
Taxes base specification		
Profit before tax	**244 519**	223 635
Permanent differences	**14 125**	31 164
Changes in temporary differences	**-15 078**	7 290
Tax expenses abroad, paid	**-**	-
Taxable profits before utilisation of unused tax losses	**243 566**	262 089
Tax losses carried forward	**-243 566**	-262 089
Taxable profit (this year tax base)	**-**	-
Income tax expenses		
Non-creditable foreign income taxes	**-**	-
Total income tax expense	**-**	-
Temporary differences		
Fixed assets	**-154 703**	-141 819
Inventory	**-1 298**	-1 298
Provisions tax liability abroad and other accruals	**-5 074**	-11 910
Pension obligations	**-**	-21 126
Tax losses carried forward	**-762 336**	-1 005 902
Total temporary differences	**-923 412**	-1 182 055
Non-recognised deferred tax asset	**-249 321**	-319 155

Non-recognised deferred tax asset

Amounts in NOK 1 000	Tax base	27 % tax
Explanation why the tax is not 27% of income before tax:		
27% tax of income before tax	**244 519**	66 020
Permanent difference		3 814
Change in deferred tax assets, not recognised		-69 834
Non-creditable foreign income taxes		-
Calculated tax		**-**
Effective tax rate in %		0.0 %

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 2014 or 31 December 2013.

Amounts in NOK 1 000	2014	2013
Collaterals		
Debts secured by pledge	**11 851**	-

Amounts in NOK 1 000	2014	2013
Pledged assets:		
Financial assets	**26 468**	-
Trade receivables	**82 663**	120 037
Cash and cash equivalents	**-**	1 317
Assets held under finance leases	**-**	1 338
Total carrying value of pledged assets	**109 131**	**122 692**

Note 10 — Investment in subsidiaries

Company	Share ownership/ Voting rights	Profit/Loss 2014	Equity 31 December 2014	Location
EMGS Americas 1 AS	100%	550	-351	Trondheim, Norway
EMGS Americas 2 AS	100%	-13	49	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100%	-2 904	-2 237	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brazil LTDA	99%	-3 854	36 376	Rio de Janeiro, Brazil
EMGS Americas Inc	100%	2 538	-10 029	Delaware, USA
Electromagnetic Geoservices Malaysia Sdn Bhd	1%	6 206	6 596	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100%	2 227	2 103	Kuala Lumpur, Malaysia
EMGS International BV	100%	-57	-809	Amsterdam, The Netherlands
EMGS Australia Pty Ltd	100%	39	728	Perth, Australia
EMGS Global AS	100%	12 720	12 572	Trondheim, Norway
EMGS Shipping Mexico S. de R.L de C.V.	49%	5 432	4 799	Col. Del Valle, Mexico
EMGS Sea Bed Logging Mexico S.A. de C.V.	100%	42 757	34 952	Col. Del Valle, Mexico
EMGS Labuan Ltd	100%	227	5 535	Labuan, Malaysia
EMGS Asia Pacific Labuan Ltd	100%	-2 743	-4 942	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%	-26	75 729	Trondheim, Norway
EM Multi-client AS	100%	6 074	30	Trondheim, Norway
Total		**69 172**	**161 100**	

Note 11 — On-going projects

Part of trade receivables which is recognised in 2014, but not invoiced per 31 December 2014 amounts to 45 990 (2013: 6 189). Deferred revenue as of 31 December 2014 amounts to 17 011 (2013: 12 132).

The Company does not expect any loss on contracts in 2014.

Note 12 — Receivables

There has not been made any provision for doubtful receivables per 31 December 2014 (2013: 0)

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

Amounts in NOK 1 000	2014	2013
Balances with group companies:		
Trade receivables	-	-
Other receivables	604 291	504 072
Total intercompany receivables	**604 291**	**504 072**
Short term liabilities	-	-
Total intercompany liabilities	-	-

Note 13 — Bank deposits

Restricted cash as of 31 December 2014:

Amounts in NOK 1 000	Short term	Long term	Total
Employee tax	10 410	-	10 410
Total restricted cash	10 410	-	10 410

Note 14 — Share capital and Shareholder information

The Company's share capital consists of 199 765 555 shares at a par value of NOK 0.25, giving a total share capital of 49 941.

The largest shareholders as of 31 December 2014:

	Number of ordinary shares	Percentage
Shareholders		
Siem Investments Inc.	22 926 866	11.48%
Perestroika AS	18 889 449	9.46%
Morgan Stanley & Co. LLC	18 576 200	9.30%
Odin Offshore	9 651 299	4.83%
Verdipapirfondet DNB SMB	8 250 000	4.13%
Odin Norge	7 272 410	3.64%
Clearstream Banking S.A.	5 517 308	2.76%
Skagen Vekst	5 029 207	2.52%
Verdipapirfondet DNB Norge (IV)	4 916 670	2.46%
Statoil Pensjon	4 539 841	2.27%
VPF Nordea Kapital	2 823 355	1.41%
J.P. Morgan Chase Bank N.A. London	2 672 385	1.34%
Sydbank A/S	2 535 666	1.27%
Sundt AS	2 426 833	1.21%
UBS AG	2 097 645	1.05%
Sportsmagasinet AS	2 000 000	1.00%
Verdipapirfondet DNB Navigator	1 801 343	0.90%
Bruheim	1 605 088	0.80%
Hard Work Invest AA	1 517 012	0.76%
DNB Livsforsikring ASA	1 429 556	0.72%
Other	73 287 422	36.69%
Total	**199 765 555**	100.00%

	Shares
Leading representatives of the Company hold the following shares	
CEO	300 000
CFO	207 694
EVP Strategic Development	100 000
Board of Directors	1 007 500

Note 15 — Equity

Amounts in NOK 1 000	Share capital	Share premium	Other paid-in capital	Available-for-sale reserve	Actuarial gains/(losses)	Other equity (uncovered loss)	Total
Equity 1 January 2014	49 934	886 563	94 552	-	13 377	-198 918	**845 508**
Total comprehensive income	**-**	**-**	**-**	**-28 444**	**-**	**244 519**	**216 075**
Cost of share-based payments	-	-	13 514	-	-	-	**13 514**
Proceeds from options execised	7	124	-	-	-	-	**131**
Equity 31 December 2014	**49 941**	**886 687**	**108 066**	**-28 444**	**13 377**	**45 601**	**1 075 228**

Note 16 — Financial items

Amounts in NOK 1 000	2014	2013
Financial income		
Group contribution	16 049	10 926
Dividends	6 585	35 608
Interest income on short term bank deposits	973	2 429
Foreign exchange rate gains	66 129	34 670
Other financial income	3 102	-
Net gains/(losses) of financial assets	2 500	-
Total financial income	**95 338**	**83 633**
Financial costs		
Interest expense	31 447	28 836
Other financial expenses	5 821	13 781
Foreign exchange rate losses	2 923	2 432
Total financial costs	**40 191**	**45 049**
Net financial gain/(loss)	**55 147**	**38 584**

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.

On 6 February 2014, EMGS signed an overdrafts agreement to fund the purchase of shares in North Energy ASA. The Company's shares in North Energy ASA serve as the collatereal for the overdrafts.

Amounts in NOK 1 000	Currency amount	Carrying value liability	Interest rate	Term to maturity	Date of payment
Bond	NOK 350 000	347 541	3 month NIBOR + 6.00%	1.5 years	
Secured overdraft	NOK 11 851	11 851	7%	At request	

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 98 877 as provision for JIP prepayments per 31 December 2014 (2013: 43 843).

The Company has made precautionary provision of approximately 15 000 to cover PGS' legal fees in the Oslo City Court as of 31 December 2014. See Note 20 for further details.

Note 19 — Financial assets

North Energy agreement

The Company and North Energy ASA signed an agreement worth NOK 100 million in January 2014. The agreement included sale of 3D EM data from the Group's existing multi-client data library in the Barents Sea and sale of services related to EM inversion and integrated interpretation. In addition, North Energy ASA committed to pre-funding of a 2014 Barents Sea programme.

The payment for services and prefunding of NOK 25 million, was made in cash, while the payment for the 3D EM data was in the form of a convertible bond of NOK 75 million issued by North Energy ASA with a strike price of NOK 4.15, coupon of 6% and with a maturity of 6 months.

The loan was settled in August 2014 when EMGS converted NOK 28.4 million of the loan into 6,851,463 shares in North Energy, at a strike price of NOK 4.1451. The remaining of the convertible loan, NOK 46.6 million was settled in cash.

After the settlement date, changes in the value of the shares in North Energy ASA are recognised in equity. The value of the Group's shares in North Energy ASA as of 31 December 2014 totals 26 468 and the change in value during settlement date recognised in equity totals -28 444.

Note 20 — Events after the reporting period

Change of CEO

On 7 January 2015, the Board of Directors of EMGS appointed Bjarte Bruheim as new CEO of the Company. Bjarte Bruheim has served as Executive Chairman of EMGS since July 2004 until 23 December 2014, and he has extensive experience from the oil service sector over the past 30 years.

Consequently, the Company and Roar Bekker agreed that Bekker resigns from the Company. He has held the position as CEO of EMGS since 26 May 2009. Bekker is entitled to severance pay corresponding to 18 months' remuneration. In addition, Mr. Bekker has the right to exercise the 670,000 options vested as of 7 January 2015 until the expiry of these options. The remainder of the options held at the time of the resignation, a total of 570,000 option, will lapse.

Norwegian court's ruling on patent invalidity

On 13 February, EMGS received the decision of the Oslo City Court on the claims against Petroleum Geo-Services (PGS) on the basis that PGS used its Towed Streamer EM in in violation of one of EMGS' patents in Norway. EMGS' Norwegian patent was found to be invalid by Oslo City Court. EMGS has decided to appeal the decision.

If EMGS loses the appeal, EMGS shall cover PGS' legal fees of approximately NOK 15 million. Company has made a precautionary provision of NOK 15 million under other operating expenses in the 2014 accounts. EMGS' legal fees for the first instance are expensed as incurred.

EMGS successfully defended the patent against claims of invalidity from Schlumberger Holding Ltd in the Netherlands, in February 2008 and in the UK Court of Appeal in July 2010 and through several oppositions in the European Patent Office appeal division in December 2011. The decision of the Oslo City Court on validity of this patent is contrary to these previous international decisions all made by specialised patent judges. The patent remains valid in 23 countries.

Forward rate agreement to secure foreign exchange gain in USO

On 2 March 2015, EMGS entered into a forward rate agreement to purchase NOK 350 million in exchange for USD 46.1 million.

Oslo, 19 March 2015

Eystein Eriksrud
Chairman of the Board

Stig Eide Sivertsen

Guro Høyaas Løken

Petteri Soininen

Johan Mikkelsen

Mimi Berdal

Tone Østensen

Christel Brønstad

Svein Ellingsrud

Ole Martin Pedersen

Bjarte Bruheim
CEO

Building a better
working world

Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Oslo Atrium, P.O.Box 20, NO-0051 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no
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 2014, 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 2014, 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 2014 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 2014 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 statements on corporate governance 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 2015
ERNST & YOUNG AS

Finn Ole Edstrøm
State Authorised Public Accountant (Norway)

EMGS ASA
Pb 1878 Lade
7440 Trondheim
NORWAY

E emgs@emgs.com
T +47 911 41 149

EMGS Asia Pacific Sdn Bhd
Unit E-15.2-4, 15th Floor
East Wing
Rohas Perkasa
No. 9 Jalan P. Ramlee
50250 Kuala Lumpur
MALAYSIA

E asiapacific@emgs.com
T +603 21 66 06 13

EMGS Americas, Inc.
15021 Katy Freeway
Suite #500
Houston, TX 77094
USA

E emgsamericas@emgs.com
T +1 281 920 5601