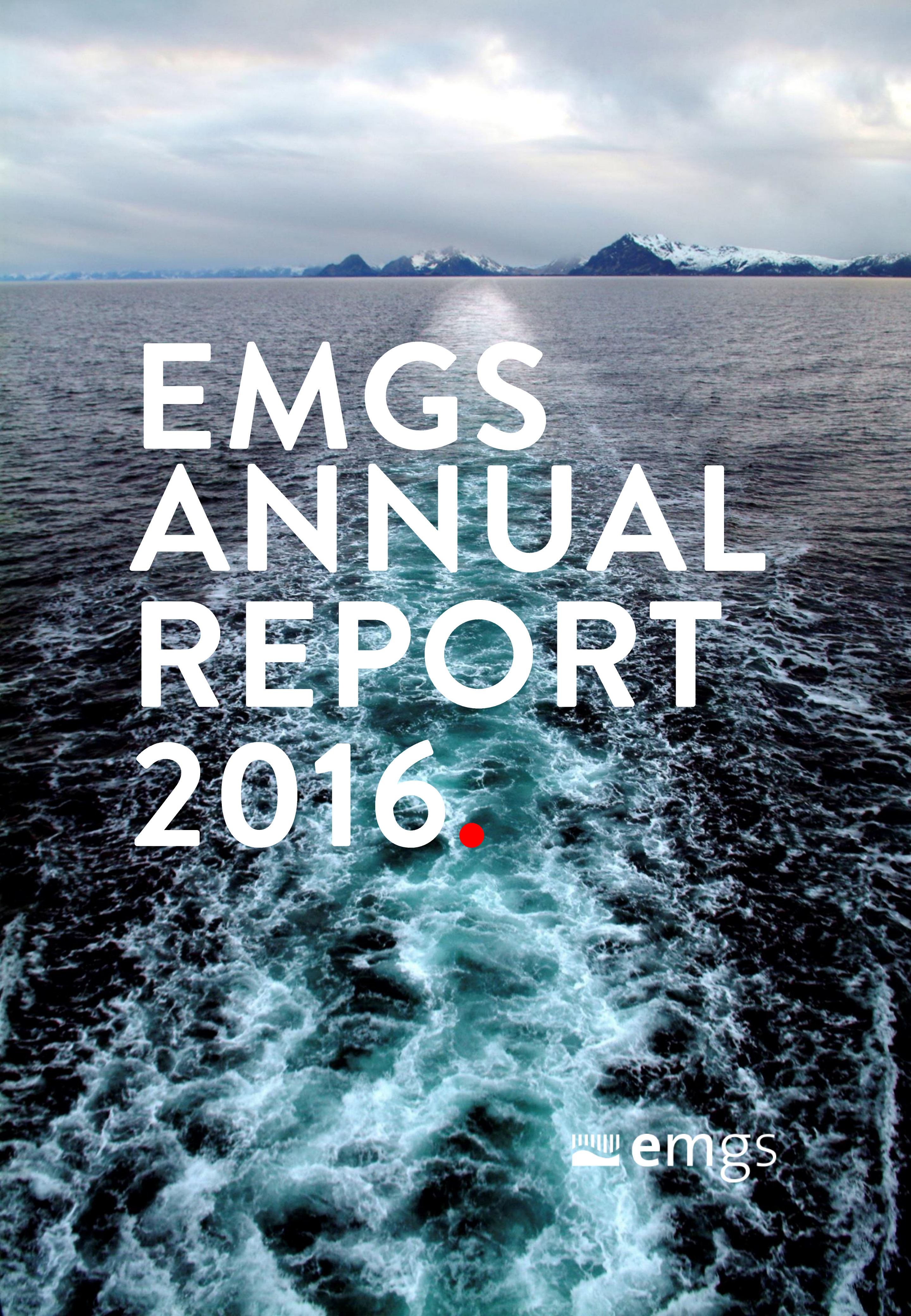
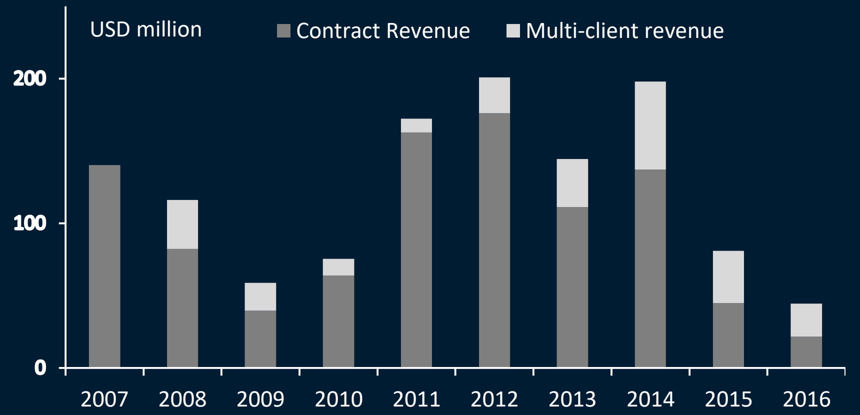
EMGS ANNUAL REPORT 2016.

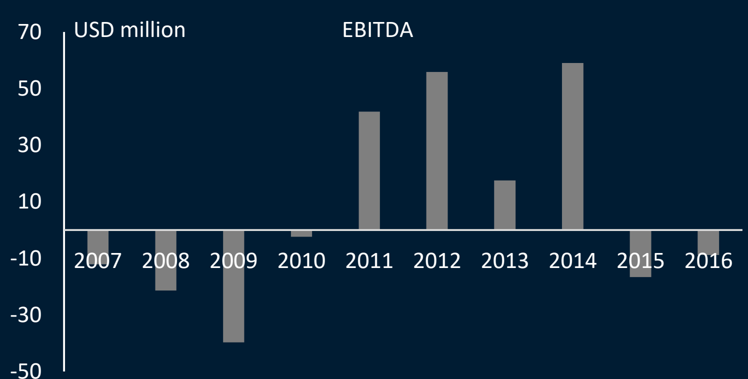


emgs

EMGS key figures




Multi-client library Indonesia
- 2.300 sq. km
- USD 4.6 million invested
Mumbai
Kuala Lumpur
Multi-client library India
- 250 sq. km
- USD 0.5 million invested


USD million
EBITDA
70
50
30
10
-10
-30
-50
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016

EMGS technology.

The electromagnetic (EM) technology used by EMGS in its survey projects can be divided into two distinct methods: 3D controlled-source electromagnetic (3D CSEM) surveying and magnetotelluric (MT) surveying.

3D CSEM

When performing a 3D CSEM survey, a powerful horizontal electric dipole source is towed 30 metres above the seafloor. The dipole source transmits a low-frequency electromagnetic signal into the subsurface. The EM energy transmitted from the dipole into the subsurface is rapidly attenuated in conductive sediments, while it is attenuated at a slower pace and propagated faster in more resistive sediments, such as hydrocarbon-filled reservoirs.

Grids of seabed receivers measure the energy that has propagated through the sea and the subsurface. The information from these receivers is processed and inverted to produce 3D resistivity volumes from the survey area.

3D CSEM surveying is a valuable supplement to seismic techniques that generally provide structural information. The combination of the two techniques (EM and seismic) together with other complementary subsurface information forms a valuable set of exploration tools, as charge, seal and volumetrics are better defined and understood.

MT surveying

Similar to 3D CSEM surveying, the MT technique generates insight into the subsurface by recognising the different resistivity of the geologic bodies in the sub-surface.

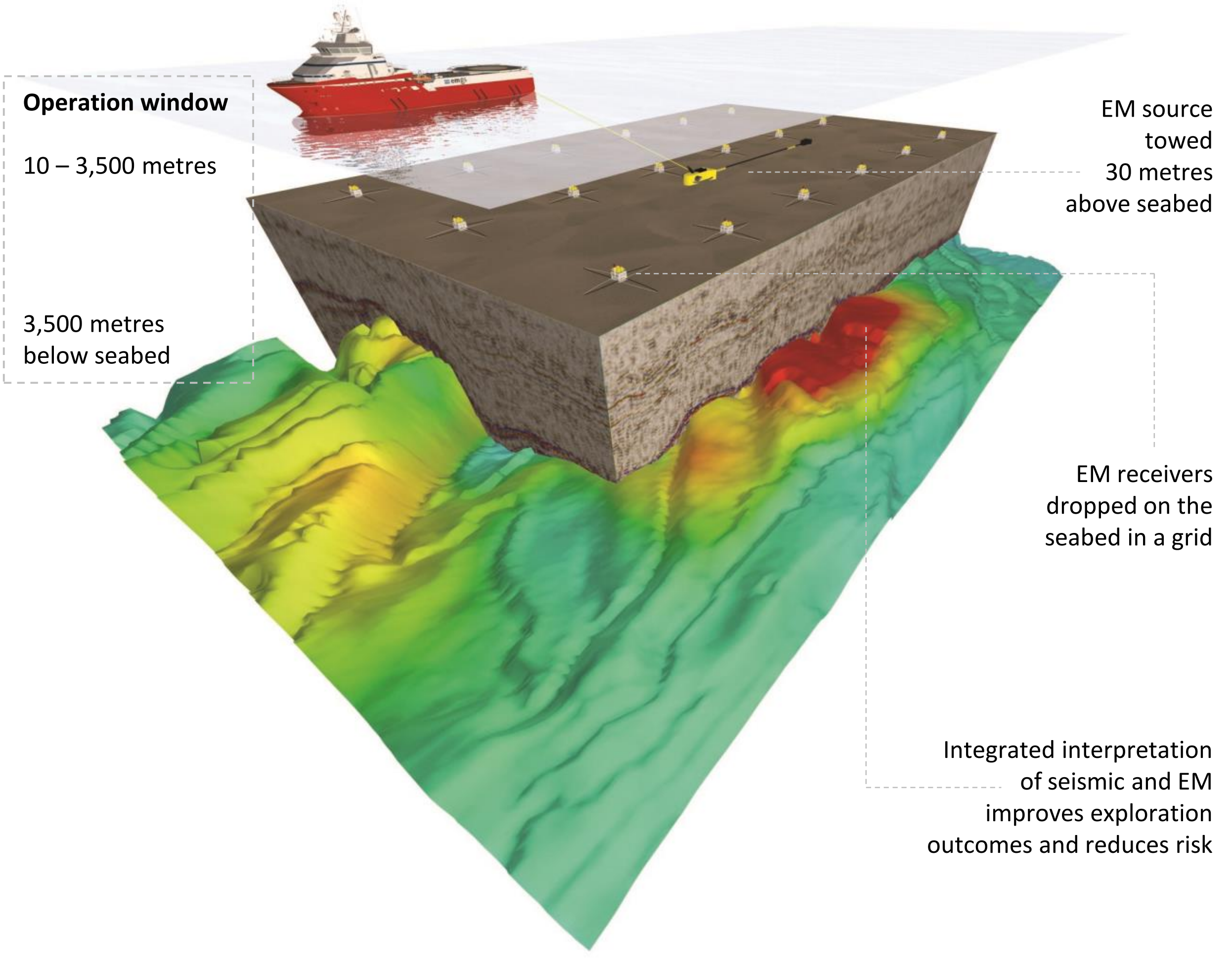
Marine MT surveys map subsurface resistivity variations by measuring naturally occurring electric and magnetic fields on the seabed. The naturally occurring electric and magnetic fields are generated by the interactions of solar wind with the earth’s magnetic field, which, when strong, are known as geomagnetic storms. The MT fields are of very low frequency, which offers excellent depth penetration. The design and sensitivity of the receivers used in a 3D CSEM survey enables EMGS to acquire high quality MT data as part of the 3D CSEM survey when the controlled source is inactive.

The low-frequency, deep-sensing nature of MT surveying makes the technique valuable for mapping and interpreting regional geology. The MT technology is highly efficient in penetrating the very thick resistive layers that might otherwise be challenging for 3D CSEM and seismic techniques.

MT surveys have been found most useful in salt and basalt settings where the flanks and/or the base are not well controlled. MT measurements can, therefore, form a useful complement to seismic techniques, particularly in settings where high-impedance volcanic rocks or salt make the imaging and interpretation of seismic challenging.

Application of EM technology

The services offered by EMGS are used in all stages of the offshore exploration and development cycle. Applications of EMGS’ technology include prospect finding, ranking of identified prospects and validating of discoveries.



Prospect Finding

At the early stages of the exploration and production process, oil and gas companies as well as other customers of EMGS (e.g. government agencies) use EM services to evaluate whether an offshore acreage is viable for commercial production of hydrocarbons. EM surveys are conducted before licensing decisions to better understand the acreage value. Likewise, EM data can be used as a decision making tool for operators evaluating licensed acreage for prospects where exploration wells may be drilled. EM may also be performed for early-stage reconnaissance scanning to find new prospects.

Prospect Ranking

Once a prospect is identified, EM surveys can help operators increase the probability of correctly evaluating the fluid content of a prospective reservoir defined from seismic information. EM surveys are used to help operators enhance their knowledge of the formation, providing additional data that enables operators to confirm or downgrade prospects before making further investments, thereby reducing the risk of drilling dry wells while increasing the success of exploration projects.

Field Appraisal

In the context of known fields, EM surveys can be used to ascertain a field's commercial viability and aid in development planning by improving reservoir delineation. EM can also assist in the positioning of subsequent development wells and can be used to reduce the number of appraisal wells that would typically be required for a field.

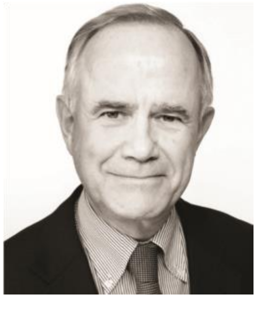
Board of Directors.

Eystein Eriksrud, Chairman of the Board

Eystein Eriksrud is the Deputy CEO of Siem Industries Group. He is chairman of Siem Offshore Inc., Flensburger Schiffbaugesellschaft mbH 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.

Petteri Soininen, Board member

Petteri Soininen is 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. Furthermore, Petteri Soininen currently serves as a member of the Supervisory Board of AMG Advanced Metallurgical Group N.V. Previously, he worked as strategy consultant with The Boston Consulting Group (BCG) in Europe and the US. He has some 20 years of experience in collaborating with top management to design and implement change programmes including major transformations to deliver sustainable shareholder value. Petteri holds a MSc (with distinction) in Industrial Engineering from the Helsinki University of Technology, Finland. 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.

Anne Øian, Board member

Anne Øian has extensive management experience, mainly from the banking industry, where she has worked with clients from the shipping and offshore industries, as well as experience from directorships in large international companies.

She has held various positions in DNB from 1975 to 2015, including that of Global Head of Shipping. Anne Øian has served the Board of Statoil, GIEK and the Norwegian School of Management (BI), as well as a number of other boards. Anne Øian holds a Masters degree from the Norwegian School of Management.

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 Chairman of the Board of Gassco AS, and member of the Board of Directors of the listed companies Interoil E&P ASA, Itera ASA and Norske Skogindustrier ASA.

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, Acquisition, I&I, and is currently working as QA and Training Supervisor in the QHSSE department.

Adam Robinson, Board member

Adam received an MSc in Physics from NTNU in Norway after completing his BSc at Lancaster University in England.

He worked six years offshore for EMGS as a Field Geophysicist, Instrument Engineer and Offshore Manager.

For the last five years he has been the Operations Manager for the EMEA region. Adam has been an EMGS employee since 2005.

Board of Directors' Report.

2016 was a challenging year for the oil services industry in general and EMGS in particular. Oil companies reduced their spending substantially, as a result of the low oil price, resulting in a decline in revenues for many suppliers in the industry including EMGS.

EMGS answered the reduction in revenues by significantly reducing its cost base. This cost reduction programme started in 2015 and continued throughout 2016. The Company has reduced costs throughout the organisation which has involved an organisational re-adjustment, a significant reduction in head count, a reduction of the fleet size and a renewal of vessel charter agreements at improved terms, amongst others. The new cost level is deemed to provide a sustainable basis for EMGS going forward.

EMGS has experienced that the industry's interest in using the EM technology is progressing, although challenged by reduced budgets and spending in the industry.

The Board expects the market outlook to continue to be challenging and characterised by high uncertainty in 2017.

About EMGS

Vision, Values and Strategy

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

EMGS' vision is ***to make EM an integral part of the E & P workflow and make EM as fully adopted as seismic.*** *By providing EM data integrated with other subsurface measurement we enable our customers to reduce uncertainty and therefore increase success in their exploration and development programmes.*

EMGS' core values are: Integrity, Commitment, Innovation and Quality. The values are included as a topic in the Company's annual employee appraisal process and highlighted in organisational surveys used to measure the organisational effectiveness.

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 assist in ensuring the full value of the service is captured.

The integration of EM methods into exploration workflows provides oil and gas companies with an improved de-risking and appraisal tool compared to 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 through a better understanding of a reservoir's charge and seal.

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

EMGS has conducted over 900 surveys across the world's mature and frontier basins in water depths ranging from 20 to 3500 metres for more than 150 customers. EM surveys have been conducted under a wide variety of operating conditions and in most major basins around the world.

EMGS' strategy is that the Company shall have a flexible and scalable business model. This will be assured by maintaining an asset-light operating model, including chartering all of its vessels from vessel owning companies. The Company shall undertake a mix of contract work and multi-client projects. The International Oil Companies (IOCs) part of the Company's market is becoming more focused on the multi-client business model. However, the Company's key National Oil Company (NOCs) customers continue to solicit contract work arrangements as the preferred business model.

The flexibility and scalability of the business model comes mainly from the following two arrangements: the chartering of vessels and the ability to do a combination of contract work and multi-client projects.

EMGS has used its flexible business model to downscale its operations to reduce the Company's cost base. The Company will however seek to scale the organisation up when the market improves and the demand for EM services increases.

In line with this strategy, EMGS has reduced the fleet from four to two vessels during 2016. EMGS had, as of 31 December 2016, two vessels on charter; the *BOA Thalassa* owned by the BOA Group (BOA SBL AS) and the *Atlantic Guardian* owned by North Sea Shipping AS. The time charter of the *BOA Galatea* was terminated in January 2016. The charter of the "EM Leader" was terminated in June 2016.

EMGS coordinates its activities from its headquarters in Trondheim (Norway) and has offices in Oslo (Norway), Houston (USA) and Kuala Lumpur (Malaysia). The Group also has offices in Rio de Janeiro (Brazil), Mumbai (India) and Villahermosa (Mexico).

EMGS was listed on the Oslo Stock Exchange in March 2007. In July 2016, the Company's shares were consolidated so that 40 shares, each having a par value of NOK 0.25, were consolidated into one share having a par value of NOK 10.00. At the end of 2016, the Company had a total of 32,794,139 shares outstanding.

EM technology

The EM technology used by EMGS in its EM survey projects can be divided into two distinct methods: three dimensional controlled-source EM (3D CSEM) surveying and magnetotelluric (MT) surveying. For more information on the different methods, please see a separate section in the annual report, EMGS technology.

Important events in 2016

Technology and operational development

The JIP
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 referred to as the Advanced EM System. This project started in 2009, the agreement with Shell and Statoil was formalised in 2012 and in 2016 a prototype of the new equipment set was successfully tested offshore Norway.

The new system provides improvements in the source output, receivers and the navigation system. Combined, this will enable EMGS' 3D CSEM technology to image deeper targets and improve the quality of the images in general and as a result has the potential to increase the addressable market.

The project continued throughout 2016, and the carrying value of the JIP as of 31 December 2016 was USD 31 million, recorded partly as assets under construction (USD 25 million) and partly as property, plant and equipment (USD 6 million). EMGS has received prepayments from Shell and Statoil. These are recorded as provisions and amounted to USD 19 million per 31 December 2016.

Two full system integration test surveys were completed during the summer of 2016, one for each of the two sponsors. The field tests confirmed the unit's output power and the performance in conjunction with the navigation systems and new receivers. The results were in line with the expected improved quality and depth of penetration of the EM fields into the subsurface and reduced signal to noise ratio.

Other equipment developments
EMGS works on incremental improvements to the standard suite of 3D CSEM equipment, including receivers, the source and the navigation system, supporting a more efficient operation and improved data quality.

Software development
During 2016, EMGS completed and commercialised several software programs improving the processing of the 3D CSEM data, including the Gauss-Newton inversion algorithm and TTI which allows the Company to better handle steep dips. These programs provide a step change in imaging quality and confidence, as well as increased computational efficiency. The new software has also been used to improve the data quality of vintage 3D CSEM data through re-processing. This process is strengthening EMGS' position as the provider of the highest quality EM data in the market.

EMGS continues the commercialisation of EMGS' developed software. The aim of making the software available to our customers is to make it easier for customers to embed 3D CSEM data into their geophysical and exploration workflows. The commercially available software also includes a prospect evaluation software. This has been well received by a large number of key customers.

Other operational improvements
In October 2016, EMGS signed an extended charter agreement for the vessel *Atlantic Guardian* with the owners North Sea Shipping AS. The new time charter agreement is for 5 years at a rate approximately 27% below the previous contract.

In January 2017, EMGS entered into an extended charter agreement of 2 years for the vessel *BOA Thalassa* with the owners BOA SBL AS at new and improved commercial terms, i.e. approximately 20% below the previous contract and additional flexibility ('pay as you go') during six months in 2017.

Multi-client investments

Since 2008, EMGS has invested in its multi-client data library. The Company's multi-client business has become an increasingly important part of the overall business, both in terms of revenues and in terms of marketing value as the Company can more freely share 3D CSEM successes with its existing and new customers. The multi-client business model is well suited for partnerships with seismic players and authorities, and reduces the unit cost of EM data for the industry. In 2016, the revenues from multi-client sales amounted to 51% of the total revenues, up from 45% in 2015 and from 31% in 2014.

EMGS key multi-client libraries
At the end of 2016, the Group's most important multi-client libraries are in the following countries / basins: Norway, Mexico, the US Gulf of Mexico, Canada, Indonesia and Brazil. The total carrying value of the library was USD 24.3 million at the end of 2016. The major part of the carrying value of the multi-client library is related to the library in Norway.

Norway
The Group has acquired approximately 78,000 square kilometres of 3D CSEM data in Norway, of which approximately 63,000 square kilometres is in the Barents Sea. The Barents Sea has proven to be a very important showcase as EMGS has been able to successfully demonstrate its value in the de-risking process of exploration and appraisal projects. In 2016, the Company acquired data on six multi-client projects in Norway; four projects in the Barents Sea, one project in the North Sea and one project in the Norwegian Sea.

In total, and as of 31 December 2016, EMGS has invested USD 67.2 million in multi-client projects in Norway since 2008 and sold data in Norway for USD 218.8 million. For 2016, multi-client revenues in Norway amounted to USD 17.5 million.

US Gulf of Mexico
EMGS completed its first commercial multi-client project in the US Gulf of Mexico in 2014. In total, EMGS acquired approximately 14,500 square kilometres of 3D CSEM data in this basin. Total investments in multi-client data in the region since 2012 (including the Sunshine project) amount to USD 32.0 million, while total sales were at USD 9.3 million, of which USD 1.5 million were booked in 2016. Opening up the US Gulf of Mexico with 3D CSEM data is a natural extension of the Company's 3D CSEM data and knowledge across the border on the Mexican side.

Whilst the region remains strategically important for the Company, the industry noted a reduction in drilling activity. As a result, and further to quarterly impairments testing, the Group recorded an impairment of the multi-client library in the US Gulf of Mexico of USD 14.8 million in 2016.

Mexico
In 2016, EMGS acquired 16,000 square kilometres of 3D CSEM data from CNH, the regulator in Mexico, which was originally acquired on a proprietary basis for USD 0.4 million. The reprocessed data is available for sale to the industry.

Canada
EMGS completed a multi-client project in Canada in 2014, including approximately 2,500 square kilometres of 3D CSEM data. The total investment was USD 9.0 million. The survey targeted the Flemish Pass Basin, where major oil discoveries have been made. No further investments were made in Canada during 2016. Revenues from sales of multi-client data from the Flemish Pass of USD 4.5 million were recorded in 2016.

India
During 2016, EMGS acquired 250 square kilometres of multi-client 3D CSEM data along the west coast of India. The Company has been in dialogue with potential buyers of the data, but the project has so far not generated sales. The total investment in India in 2016 was USD 0.5 million.

Indonesia
EMGS acquired multi-client 3D CSEM data in Indonesia in 2015. The total investment in India in 2015 was USD 4.6 million, covering 2,300 square kilometres.

The Company recorded an impairment of the multi-client library in Indonesia of USD 1.7 million in 2016.

Brazil
EMGS acquired 15,000 square kilometres of multi-client 3D CSEM data in Brazil between 2011 and 2013. The Company was awarded some reprocessing work involving parts of this library in 2016.

Sales and customers

The Group's revenues were reduced from USD 81.1 million in 2015 to USD 44.5 million in 2016, reflecting the challenging market for the oil services industry in general and 3D CSEM in particular.

The EMGS sales organisation consists of commercial sales, technical advisors and exploration advisors. The Company has maintained its presence in key markets to make sure the sales force is located as close as possible to its target markets.

Other important events

Cost reduction measures
In April 2016, the Company implemented several structural changes to the organisation, including centralising and merging certain departments in addition to other measures to reduce costs. The changes resulted in a reduction of the global headcount by about 15%.

In October 2016, EMGS initiated another reduction in the Company's cost base in line with the ongoing reduced level of activity. The Company used both temporary and permanent layoffs to reduce the annual employee expenses by approximately 20%. The Company plans to bring temporary laid off employees back as and when the outlook improves.

The cost reductions implemented in April and October 2016, reduced the global headcount from 236 at the beginning of 2016 to 143 at the end of 2016, a reduction of 43%. The size of the R&D and software development teams were kept at a minimum level to ensure core developments remain on track and to ensure the Company can grow back up again when the market improves.

In October 2016, EMGS signed an extended charter agreement for the vessel *Atlantic Guardian* with the owners North Sea Shipping AS. The new time charter agreement is for 5 years at a rate approximately 27% below the previous contract.

In January 2017, EMGS entered into an extended charter agreement of 2 years for the vessel *BOA Thalassa* with the owners BOA SBL AS at new and improved commercial terms, i.e. approximately 20% below the previous contract and additional flexibility ('pay as you go') during six months in 2017.

Most of the cost reduction measures yielded effects gradually as costs came down each month during 2016.

Organisational changes
Christiaan A. Vermeijden started as CEO on 1 February 2016. Stig Eide Sivertsen served as interim CEO of the Company from August 2015 to January 2016.

Patent litigation with PGS settled in April 2016
Since 2013, EMGS and Petroleum Geo-Services (PGS) had ongoing patent litigation in Norway, UK and in the USA. The basis for the claims was the evaluation by EMGS that PGS had infringed EMGS' European patent EP 1256019 ("Refracted Wave Patent"). PGS ASA had taken out an infringement claim against EMGS ASA and EMGS Americas Inc. for infringement of a PGS patent in the US.

On 13 April 2016, the Company announced that it had entered into an agreement with PGS to settle the two companies' patent disputes in all jurisdictions. EMGS and PGS support the validity of the EMGS Patent and the PGS Patent.

EMGS granted PGS a license to the EMGS patent to operate its Towed Streamer EM system. EMGS has similarly been granted a license to the PGS patent. Both licenses are royalty free and valid world-wide for the validity period of the relevant patent. Each company covered their own legal costs in all jurisdictions.

Norwegian licensing rounds
The Norwegian licensing system consists of two different kinds of licensing rounds; numbered licensing rounds for frontier areas and awards in predefined areas (APA) for more developed acreage. The numbered licensing rounds are normally announced every other year, while the APA round follows a fixed annual cycle. Based on the Company's track record, the licensing rounds in Norway represent important revenue opportunities.

On 18 May 2016, The Ministry of Petroleum and Energy announced the offer of ten new production licenses in the 23rd licensing round on the Norwegian continental shelf to thirteen companies. All ten licenses are in the Barents Sea. The Company recorded revenues of approximately USD 10 million in late sales and uplifts net after adjustment of revenue share in the second quarter of 2016.

When the APA awards were announced in January 2016, it was revealed that one production license group had included 1,000 square km EM acquisition in its work commitment, and 9 other production licenses had included EM feasibility studies as part of their commitment. This is the first time EM technology was made part of a production license work programme commitment in a Norwegian licensing round, which is an important step towards full adoption of the EM technology. The development continued with the APA awards announced in January 2017. In this APA award it was made public that two production license groups had included EM acquisition in its work commitment, and 4 other production licenses had included EM feasibility studies as part of their work commitment.

India
The Boa Thalassa started the year 2016 with contract work in India between 4 January and 26 February 2016. The vessel continued with multi-client acquisition in India from 12 March until 16 April 2016.

Malaysia
The Boa Thalassa ended the year in 2016 with contract work in Malaysia between 4 November and 31 December 2016.

Canada
The Company recorded late sales associated with the Flemish Pass data set during the year. The data was acquired by EMGS in 2014.

Changes to the Board of Directors
EMGS held its annual general meeting on 9 June 2016. The number of board members elected by the shareholders was reduced from seven to five.

Events after the balance sheet date

New charter agreement for the BOA Thalassa
On 20 January 2017, EMGS signed a new charter agreement for the vessel BOA Thalassa at new and improved commercial terms. The new terms are valid through 1 October 2019 with an option to extend the new agreement through 1 April 2021. EMGS and the owners of the vessel have agreed to a reduction of the charter hire rate by approximately 20% and some additional flexibility during 2017. The new contract will have a firm start on 1 October 2017, but the vessel remains available, as an option to EMGS, on a project by project basis between 1 April (expiry date of current contract) and 1 October 2017. The new terms are valid in this period.

Financing
On 22 March 2017, EMGS entered into an agreement with DNB Bank ASA to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company's bond loan. The existing (i) USD 10 million revolving credit and (ii) the USD 10 million Guarantee facility are made fully available to the Company based on security in the form of guarantees from Siem Industries Inc. and Perestroika AS who receive market level guarantee commission.
In addition, the Company will carry out a preferential rights issue with gross proceeds equal to the NOK equivalent of USD 17 million. The rights issue is fully underwritten by EMGS' three largest shareholders.

Bond buy-back
On 23 March 2017, the Company offered its bondholders to buy back in full their nominal outstanding amount at a price equivalent to 70% of the par value. The result of the bond buy-back was that 9% of the bondholders accepted the offer and USD 2 million will be used to buy back these bonds. This will reduce the bond loan interest expenses by 9%.

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 vessels.

Demand for EM services

The overall demand for EMGS' services is dependent, in part, on offshore oil and gas E&P budgets. The low oil price environment between mid-2014 and 2016 resulted in reduced E&P spending by oil companies. The industry has announced another decrease, albeit relative modest, in E&P spending for 2017.

The Company has two main sources of revenue: contract sales and multi-client sales. In addition, the Company receives some revenue related to consultancy, processing services and software sales. These revenues are presented as contract sales. For more information on the different revenue sources, please see the notes to the financial statements.

Fleet status and utilisation

As per the end of 2016, the Company chartered two vessels, i.e. the BOA Thalassa and Atlantic Guardian.

The *BOA Thalassa* had firm charter until April 2017. In January 2017, a new charter agreement was entered into for 2 years with approximately 20% reduction in vessel rates.

The *Atlantic Guardian*, had a firm charter agreement until December 2017. A new 5-year firm charter agreement was entered into in October 2016 at approximately a 27% reduction in rates.

The vessels operated over the course of 2016 in India, Malaysia and Norway.

In total, EMGS recorded a total of 22.8 vessel months in 2016, an average of 5.7 per quarter, compared with 40.5 vessel months in 2015 and an average of 10.1 per quarter in 2015. The Company had a vessel utilisation of 70% in 2016, up from 59% in 2015. The vessel utilisation for the year was allocated with 19% to contract work, 47% to multi-client projects and 4% to a funded R&D project.

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. Technical downtime was kept at a minimum over the course of 2016.

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. Weather downtime increased towards the end of 2016 as the *Atlantic Guardian* remained in the Barents Sea to acquire multi-client data.

Currency transaction exposure occurs to some extent during the ordinary course of business and when the relevant exchange rates alter between the date of a transaction and the date of the final payment for the transaction. The Group records such gains or losses in the financial income and expenses line item of its consolidated income statement.

Financial statements

Going concern

The Group has prepared its 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 2016, the carrying value of equity was USD 32.7 million, down from USD 78.0 million at the end of 2015. The free cash balance at the end of 2016 was USD 14.0 million.

See "Events after the balance sheet date" for actions taken in 2017 to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company's bond. The announced financial restructuring is expected to provide the Company with sufficient liquidity to operate even if market remains at the current low levels going into 2018.

Results of operations

The year ending 31 December 2016 is compared below with the year ending 31 December 2015.

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

Revenues and operating expenses
In 2016, the Group recorded revenues of USD 44.5 million, down from USD 81.1 million in 2015. Contract sales ended at USD 21.8 million, while multi-client sales totalled USD 22.7 million. USD 0.6 million was recorded as pre-funding multi-client revenues and USD 22.1 million was recorded as late sales multi-client revenues. In 2015, USD 45.0 million was recorded as contract sales, while multi-client sales totalled USD 36.1 million. This means that the sales from the multi-client projects accounts for 51% of the revenues in 2016, compared with 45% in 2015.

The decrease in revenues from 2015 to 2016 can mainly be explained by fewer and smaller contract sales, as well as lower sales from the multi-client libraries.

Charter hire, fuel and crew expenses ended at USD 18.1 million, a decrease of 44% from the USD 32.4 million reported in 2015. The main reasons for the decreased expenses are lower activity levels and the effect of the cost savings program implemented in 2016. The Group's capitalisation of multi-client costs was USD 11.5 million in 2016, compared with USD 34.4 million in 2015.

Employee expenses amounted to USD 25.1 million in 2016, down from the USD 44.8 million reported in 2015 (see more details in Note 8). The number of employees decreased from 236 at the beginning of 2016 to 143 at the end of 2016.

Other operating expenses amounted to USD 10.1 million in 2016, compared with USD 20.6 million in 2015. A more detailed overview of the Group's other operating expenses can be found in Note 9.

Depreciation and amortisation
Depreciation and ordinary amortisation totalled USD 7.7 million in 2016, down from USD 12.7 million in 2015. The decrease is due to assets becoming fully depreciated.

Multi-client amortisation amounted to USD 11.2 million in 2016, which is higher than the USD 8.6 recorded in 2015. EMGS changed its principles for multi-client amortisation from 1 January 2016 and onwards. The Company uses straight-line amortisation for its completed multi-client projects, assigned over the useful life time of four years. The amortisation is then distributed evenly, independently of sales during the period.

In 2016, the Group recorded impairments of long-term assets of a total of USD 17.3 million, compared with a total of USD 31.3 million in 2015. The amount includes impairment of software under development of USD 0.8 million and an impairment of the multi-client library of USD 16.5 million.

Financial items and result for the year before and after taxes
Interest expenses ended at USD 3.3 million in 2016, a decrease from USD 4.1 million in 2015. EMGS recorded a gain on net foreign currency of USD 1.5 million in 2016 compared with USD 4.2 million in 2015. The accumulated loss of the North Energy shares of USD 7.2 million was reclassified from comprehensive income to net financial items when the Company sold its North Energy shares in January 2016.

Net financial items ended at negative USD 7.8 million in 2016, compared to a negative USD 3.7 million in 2015.

For 2016, EMGS recorded a loss before income taxes of USD 52.9 million, compared with a loss before income taxes of USD 73.0 million in 2015.

Income tax expenses of negative USD 0.1 million were recorded in 2016, up from USD 3.7 million in 2015. These taxes relate to results in foreign jurisdictions.

EMGS reported a net loss of USD 52.8 million for 2016, up from a net loss of USD 76.7 million for 2015.

Cash flow and balance sheet

Cash flow from operating, investing and financing activities
For 2016, net cash flow from operating activities was negative USD 0.8 million, compared with positive USD 28.3 million in 2015.

EMGS applied USD 13.5 million in investing activities in 2016. The investments consist of USD 3.4 million in property, plant and equipment and USD 11.5 million in multi-client investments and JIP field test. In addition, the Company sold its shares in North Energy ASA with a price of USD 1.4 million. In 2015, cash applied in investing activities amounted to USD 42.0 million. This included USD 7.7 million related to property, plant and equipment and USD 34.4 million in multi-client investments.

Cash flow from financial activities ended at negative USD 3.3 million in 2016 as a result of interest payments of USD 2.3 million and the payment/settlement of a loan and the forward rate agreement of USD 1.1 million. In 2015, cash flow from financial activities ended at USD 20.3 million. The equity issue resulted in proceeds of USD 31.5 million, of which USD 8.9 million were used to buy back parts of the Company's outstanding bond loan.

In sum, cash decreased by USD 17.7 million in 2016. At 31 December 2016, cash and cash equivalents totalled USD 18.9 million, including USD 4.8 million in restricted cash.

Financial position
EMGS total assets amounted to USD 111.3 million at 31 December 2016, down from USD 165.1 million at 31 December 2015, mainly explained by the above-mentioned impairments and decrease in trade receivables.

The carrying value of the Group's multi-client library was USD 24.3 million at the end of 2016, a decrease of USD 17.9 million since the end of 2015.

Total borrowings were USD 31.9 million at the end of 2016, up from 31.5 million at the end of 2016.

Liquidity requirements and financing facilities
EMGS' cash flow forecast is considered sufficient for the Group to meet its liquidity requirements for 2017.

The Group's need for liquidity fluctuates from quarter to quarter depending on revenues, capital expenditures, vessels in operation and cash balance.

Cash and cash equivalents, excluding restricted cash, totalled USD 14.0 million at 31 December 2016, compared with USD 31.7 million at 31 December 2015.

As per 31 December 2016, EMGS has one listed bond loan worth NOK 270 million (USD 30.9 million) and financial lease obligations of USD 1.0 million.

In addition, liabilities related to the above-mentioned forward rate agreement amount to USD 4.7 million at the end of 2016.

The Group has total borrowings of USD 31.9 million and a cash position of USD 18.9 million.

See "Events after the balance sheet date" for actions taken in 2017 to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company's bond.

Research and development

To maintain its market leading position within the EM market, EMGS has invested significant time and resources in research and development ("R&D"). The industry in which it operates is highly technical and the requirements for the acquisition and processing of EM data evolve continuously. EMGS has agreements with various universities, research institutions and oil and gas companies regarding various aspects of R&D for software applications used in the processing, inversion and modelling of EM data.

As of 31 December 2016, EMGS' R&D staff included 18 scientists, engineers and programmers. As a result of the lower activity in the oil and gas sector, EMGS has reduced its investments in R&D. The research, development and software groups were reduced in size and some on-going research/feasibility work has been re-prioritised. The Company's key projects that are close to completion are continued. Other projects, low priority projects in particular, are postponed until market conditions improve. The reduced activity related to R&D is likely to have limited revenue impact in the short term, as the Company is in a strong technological position.

In 2016, EMGS incurred R&D related costs of USD 0.9 million, down from USD 2.1 million in 2015.

In addition, the Group capitalised certain R&D expenses in accordance with IFRS. In 2015, the Group capitalised USD 1.5 million of its employee costs as development, down from USD 2.5 million in 2015.

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 – 447 035
Net income allocated	KNOK – 447 035

Distributable equity as of 31 December 2016 was KNOK 0.

Financial risk

The Group's principal financial liabilities are trade and other payables, loans and borrowings and forward rate agreement. The Group has various financial assets such as trade receivables, cash and short-term deposit which arise directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management and Board review and agree 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 Group has limited exposure to interest rate risk, as this is primarily only related to the Group's long-term loan of NOK 270 million with floating interest rate (3 month NIBOR + 6%).

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, so the foreign currency risk is primarily with respect to NOK in EMGS ASA.

For 2016, approximately 97% of the Group's sales revenues were denominated in USD, whilst approximately 48% of the costs were denominated in USD.

EMGS also had a NOK 270 million bond loan as of 31 December 2016. The Group manages the exposure level of foreign currency risk by hedging its exposure to exchange rate fluctuations related to the bond loan.

Foreign exchange risk arises from future commercial transactions, recognised as assets and liabilities. The Group's exposure to foreign currency changes on equity and for all other currencies is not material.

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. As EMGS expects a slow market for its services in 2017, the Company has reduced the costs significantly in 2016 in order to strengthen the cash balance.

The bond loan covenant implies a minimum free cash of USD 10 million. It is the aim of the Company is to be compliant with this covenant.

See "Events after the balance sheet date" for actions taken in 2017 to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company's bond.

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.

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 2016, EMGS did not experience any significant defaults in payments from customers.

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. Three customers amounted to a significant part of the 2016 revenues. However, these customers were large national oil companies, and considered creditworthy.

Corporate governance

EMGS is committed to healthy corporate governance practices. EMGS' 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 produces a comprehensive annual statement on corporate governance as part of its annual report. For further details, please see the section titled 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, 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

The market outlook for oil services is challenging and characterised by high uncertainty. The industry has announced another decrease, albeit relative modest, in E&P spending for 2017. However, EMGS has noted an increase in commercial activity, and with a reduced cost base, the Company is better positioned than it was one year ago.

The Company expects that the 24th licensing round will trigger some sales in first half of 2017. Otherwise, marketing efforts are ongoing to secure backlog in Asia and the Americas. The Company is also engaged in discussions to commercialize the Advanced CSEM System as developed under the Joint Industry Project (JIP).

Based on the current operational forecast, EMGS expects to operate two vessels in 2017. EMGS will continue to invest in its multi-client library in selected areas. Capital investment plans are limited to maintenance of existing equipment and to the JIP.

Oslo, 29 March 2017
Board of Directors and CEO of Electromagnetic Geoservices ASA

Sign.

Responsibility Statement.

Today the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' Report and the consolidated and separated annual financial statements for Electromagnetic Geoservices ASA ("EMGS" or the "Company") for the year ended 31 December 2016.

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 Board of Directors' report is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no 16.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2016 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 2016 for the Group and the Company.
- The Board of 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, 29 March 2017

Board of Directors and CEO of Electromagnetic Geoservices ASA

Sign.

Report on Corporate Governance.

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

EMGS' principles for corporate governance are based on the following elements:
- EMGS will provide open, reliable and relevant communication to the shareholders, governmental bodies and 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's Board has a majority of members who are independent of shareholders
- EMGS pays 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 practice related to their policy on corporate governance. The report shall "comply or explain" compared to 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 and on its website, www.emgs.com. EMGS' objective is to comply with all sections of the Code, but the Company may deviate from principles in the Code if required for special purposes.

The following sets out how the Code is accommodated through the financial year 2016.

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.

EMGS has a set of clearly defined core values: Integrity, Commitment, Innovation and Quality. The values are operationalised in EMGS' daily work.

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

EMGS' website provides more information about the Company's business activities, policies and standards.

2. Business

EMGS is the market leader in electromagnetic (EM) surveying and 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 2016, 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 2016, the EMGS Group had an equity of USD 33 million, representing an equity ratio of 29%.

Dividends

During 2016, the Company has reduced its costs in line with the reduced activity level. The Company has at present no intention to pay dividends. The Board will establish a dividend policy when relevant. The Company's objective over time 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.

Authorisations to increase share capital and to acquire own shares

At the Annual General Meeting (AGM) held in 2016, the Board was authorised to increase the share capital by up to NOK 32,794,138 through one or more share issues. 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 2017. As of 31 December 2016, the Board had not used this authorisation.

The AGM also authorized the Board to increase the capital of NOK 1.25 in relation to adjustment of the par value. This capital increase was registered on 28 June 2016. After this capital increase the Company's new registered share capital was NOK 327,941,390, consisting of 1,311,765,560 shares with a par value of NOK 0.25 per share.

The Board was also given authorisation to increase the share capital by up to NOK 21,108,842 to 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 2018. As of 31 December 2016, the Board had not used this authorisation.

Adjustment to the par value of the EMGS shares

In the Company's AGM on 9 June 2016, it was resolved to perform a reverse share split of 1 to 40 shares. The par value of the share was increased from NOK 0.25 to NOK 10.00. The shares were recorded with the new par value on 4 July 2017 and traded with this new par for the rest of 2016. After this adjustment, the Company's registered share capital remained NOK 327,941,390. Total number of shares decreased to 32,794,139 with a par value of NOK 10.00 per share.

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 one class of shares, and any purchases or sales of own shares are carried out through the stock exchange.

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

Pursuant to the Norwegian Public Limited Liability Companies Act, existing shareholders have pre-emptive rights in connection with share capital increases; however, this right can be waived. Any decision to waive the pre-emptive right must be justified by the Board. Where the Board resolves to carry out an increase in the share capital and waive the pre-emptive 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-emptive 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.

The share consolidation performed on 30 June 2016 was performed by giving each shareholders one share for 40 old shares. The number of shares allocated to each shareholder was rounded upwards.

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.

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.

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 2016 AGM was held on 9 June 2016. The 2017 AGM has been rescheduled from 8 June 2017 to 25 April 2017.

The notices calling the general meetings are made available on the Company's website and sent to shareholders in the form requested in their VPS account 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. This alternative has not been used in 2016.

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 directly. However, shareholders are still entitled to receive the documents by regular mail upon request.

The calling notice to 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 2017 AGM is included in the Company’s financial calendar. As a routine, the financial calendar for the coming year is published no later than 31 December as a stock exchange announcement, and it is also made available on the Company’s website.

Participation in general meetings

Shareholders who do not 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 on the agenda 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 meetings. The Company has evaluated the recommendation but decided that it was in the interest of the Company and the shareholders that the general meeting held in 2016 was chaired by the Chairman of the Board.

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 11 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 2016, the nomination committee consists of 2 members;

- Kristian Siem (Chairperson)
- Frederik W. Mohn

The Nomination Committee has refrained from accepting a fee for their work on the Nomination Commitee. The Nomination Committee proposes candidates for election to the Board and for the remuneration 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 is in 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 11 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.

According to article 5 in the Company's Articles of Association, the Board shall consist of 5–11 board members. At the end of 2016, EMGS' Board had seven members, including two members elected by and among the employees. Three of the members are women.

The shareholder-elected members represent varied and broad experience from relevant industries and areas of speciality, and the members bring experiences 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 2016, the Board consisted of the following:

- Eystein Eriksrud, Chairman
- Petteri Soininen
- Johan Kr. Mikkelsen
- Mimi Berdal (independent)
- Anne Øian (independent)
- Adam Robinson, employee representative
- Christel Brønstad, employee representative

It was resolved by the annual general meeting held on 9 June 2016 to reduce the number of board members from 10 to 7. As a consequence, three board members were not re-elected. Guro Høyaas Løken and Ole Martin Pedersen served as board members from 1 January until the 9 June 2016. Stig Eide Sivertsen served as board member from 3 February (when he resigned from the temporary CEO role) until 9 June 2016.

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.

Two of the five shareholder-elected board members are 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 has 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 committees.

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 principles. 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 regularly with the auditor where no member of the executive management is present.

As per 31 December 2016, the audit committee consisted of the following:
- Anne Øian, Chairman
- Eystein Eriksrud

Guro Høyaas Løken served on the audit committee from 1 January until 9 June 2016.

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 2016, the compensation committee consisted 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's 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 that conducts a review of the quarterly and annual reports before publication. The audit committee assess the integrity of EMGS' accounts. It also inquires into, on behalf of the Board, assess 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 are 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 reports are normally published within six weeks following the end of the quarter, except for the report for the second quarter which is normally published around seven 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 maintain contact with shareholders throughout the year. If possibly in relation to the quarterly presentations and the participation in seminars mainly aimed at investors. This contact is coordinated between the Chairman of the Board, the CEO and/or the CFO.

The Company has a policy identifying the positions entitled to speak on behalf of the Company on various subjects 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 normally both make a recommendation on whether the shareholders should accept the offer and 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’ 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.

Oslo, 29 March 2017
Board of Directors and CEO of Electromagnetic Geoservices ASA

Sign.

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 2016.

The report is based on the principles in EMGS’ policy for sustainability and corporate social responsibility (the “CSR Policy”). These principles cover the areas of Quality, Health, Security, Safety and Environment (QHSSE), 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 core values of the Company:

> **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.

This report covers CSR work related to EMGS with its subsidiaries (together the “Group”) in 2016.

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 2016, 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 2016. The CSR policy is also available on the Company’s homepage www.emgs.com.

Statement on CSR work 2016

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 related to CSR, and measures taken under each of the main CSR principles.

In 2016, the general objectives for Quality, Health, Security, Safety and Environment (QHSSE) were met, but some areas of improvement were identified. The same applies for the QHSSE Key Performance Indicators (KPI). The Company is continuing a positive QHSSE trend from previous years. The 5 year statistics are showing a positive trend and are in line with its peers.

EMGS complies with the highest standards from IOGP, the International Association of Oil and Gas Producers, as well as with specific QHSSE requirements from customers and authorities.

QHSSE performance is reviewed on a regular basis with the Board and management team.

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

The working environment and the employees
As of 31 December 2016, the EMGS Group had 143 employees, of which 59 work in Trondheim, Norway, 6 at its regional office in Houston, USA, 9 at the regional office in Kuala Lumpur, Malaysia and 20 at the regional office in Oslo, Norway. In addition, 42 employees work offshore and the remaining 7 work in other locations. The Board has received reports on the development of the working environment during 2016. The Board is aware that the restructuring and organisational changes over the previous year have been challenging to the psychosocial working environment. It is a prioritised goal for EMGS to maintain a good working environment, even through challenging times of restructuring. Management has been taken measures to improve the communication in certain departments where the restructuring has caused particular concerns. The management team also had close contact with employee representatives throughout the year.

As many employees are involved in offshore operations, a dedicated HSE training program has been implemented to ensure the safest possible working environment.

The percentage of absences due to illness in 2016 was 1.9%, a decrease from the 2.0% reported in 2015. During 2016, the Company did not record any lost time injuries.

Equal opportunities and discrimination statement
EMGS' 143 employees represent more than 24 different nationalities with different cultures.

EMGS has defined and implemented guidelines to protect against gender discrimination. At the end of 2016, 20% of the Group's 143 employees were female, compared to 21% in 2015. 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 a high degree of representation of males at management level and among technical professionals. As per 31 December 2016, EMGS management team had 8 members, of which 2 females.

The Discrimination Act's objective is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and faith. The Group is actively 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 24 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 day to day communications.

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 made concerning workplace and responsibilities. For offshore work, 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 on issues relating to the safety, health and welfare of the employees. The Working Environment Committee has quarterly meetings, in addition topic based meetings.

The Forum for Employee Representatives meets with the CEO, the VP 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 8 times in 2016, in addition to several informal meetings.

Working environment measures
EMGS management encourages 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 and office meetings. The regular offshore seminars were replaced by management visit to the vessels in 2016 to contribute to the cost reductions.

In 2016, management made 6 visits to vessels in the Company's fleet. The CEO and other members of the management team have visited all business units within the Group.

Office inspections are carried out on a regular basis to capture working environment potential hazards.

The Maritime 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. As of February 2017, the MLC 2006 had been ratified by 81 countries and implemented on 91% of the world's gross tonnage of ships. 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 2016.

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 provided 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 2016, the training program was related to code of conduct and was conducted as a classroom training. This course was completed by approximately 80% of the employees with exposure to clients and/or subcontractors and vendors. Management attended anti-corruption and code of conduct training in 2016. The Company has a strategy to hold anti-corruption training for all employees at least every two years. In 2017, following the headcount reductions in 2016, the training will be expanded to cover all employees.

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 encourages and supports 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 not received any reports from employees during 2016.

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

External environment

EMGS is of the opinion that a more systematic use of its 3D CSEM data in oil exploration will reduce the environmental footprint of oil exploration by among other things reducing the number of well spudding required to find and appraise hydrocarbon reservoirs.

EMGS is committed to act responsibly and in full transparency to monitor and reduce its environmental impact and continually improve the overall environmental performance of its services. This is an integral and fundamental part of EMGS business strategy, operating methods and technology development implemented through EMGS' QHSSE Policy, Environmental Standard and Environmental Management Plan.

EMGS is tracking its environmental footprint on each survey and identifying and monitoring the main waste streams including hazardous waste.

The technology EMGS uses supports the Company's environmental ambitions. The anchors used to keep receivers in place are made from an eco-friendly compound which dissolves in the months after the receivers are released, thus the anchors do not harm the environment. This means that the anchors are reduced to disaggregated sand after a survey, leaving no discernible survey footprint and no hazard to sub-sea operations or fishing.

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 or legal or in 2016.

Oslo, 29 March 2017
Board of Directors and CEO of Electromagnetic Geoservices ASA

Sign.

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 2016 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. 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 plan, is applied by assessing the criticality of the role to the Company, as an instrument to retain 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 50% 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 – 50% of Base Salary.

2.3. Share Option Program

Management participates in the Company's Stock Option Plan which is used to attract and retain key employees. The programme was established with the aim to provide a long-term incentive.
For new grants, the minimum exercise price is set at fair market value at the date of grant. The vesting period is from 4 to 5 years.

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

In the Annual General Meeting held in June 2016, it was resolved to authorise the Board to issue a maximum of 40,993 options over 2 years under the option programme (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 2016 is 423,024.

2.4. Pension plan

Management participates in the Company´s collective pension plan. The Company has defined contribution pension plans, and the plan applicable in Norway 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 92 576 as of 31 December 2016.

2.5. 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.

2.6. Severance plan

In 2016, members of Management have 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.

As of 31 December 2016, the CEO and COO have a severance corresponding to 12 months Base salary after end of notice period included in the agreement.

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 2016

The remuneration policies set out in the declaration on determination of salary and other compensation to the Management for 2016 were followed in all respects. No members of Management received a performance bonus.

Oslo, 29 March 2017
Eystein Eriksrud
for and on behalf of the Board of Directors of Electromagnetic Geoservices ASA

Sign.

Financial statements.

EMGS Group

Consolidated Income Statement.

1 January - 31 December

Amounts in USD 1 000	Note	2016	2015
Operating revenues			
Contract sales	6	21 797	45 008
Multi-client pre-funding	6, 16	579	3 546
Multi-client late sales	6, 16	22 151	32 586
Total revenues		**44 527**	**81 140**
Operating expenses			
Charter hire, fuel and crew expenses	7	18 176	32 402
Employee expenses	8	25 097	44 826
Depreciation and ordinary amortisation	16, 17	7 677	12 679
Multi-client amortisation	16	11 244	8 631
Impairment of long-term assets	16, 17	17 286	31 344
Other operating expenses	9, 10	10 137	20 607
Total operating expenses		**89 617**	**150 489**
Operating profit/(loss)		**-45 090**	**-69 349**
Financial income and expenses			
Interest income	11	217	352
Interest expense	11	-3 273	-4 055
Net gains/(losses) of financial assets and liabilities		-6 297	-4 106
Net foreign currency income/(loss)	11	1 512	4 155
Net financial items		**-7 841**	**-3 654**
Income/(loss) before income taxes		**-52 931**	**-73 003**
Income tax expense		-100	3 712
Income/(loss) for the year		**-52 831**	**-76 715**
Basic income/(loss) per share in USD		**-0.08**	**-0.33**
Diluted income/(loss) per share (ESP) in USD		**-0.08**	**-0.33**

Consolidated Statement of Other Comprehensive Income.

1 January - 31 December

Amounts in USD 1 000	Note	**2016**	2015
Income/(loss) for the year		**-52 831**	**-76 715**
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		115	28
Net (loss)/gain on available-for-sale (AFS) financial assets, reversal of prior year losses – recognised in Income Statement upon realisation	18	7 202	-3 218
Other comprehensive income/(loss)		**7 317**	**-3 190**
Total comprehensive income/(loss) for the year		**-45 514**	**-79 905**

The items recorded in Other comprehensive income/(loss) do not have any tax effect in 2016 or 2015.

Consolidated Statement of Financial Position.

As of 31 December

Amounts in USD 1 000	Note	2016	2015
ASSETS			
Non-current assets			
Multi-client library	16	24 332	42 267
Other intangible assets	16	2 457	3 703
Property, plant and equipment	17	13 901	16 773
Assets under construction	17	28 255	26 566
Financial assets	18	0	1 387
Total non-current assets		**68 945**	**90 696**
Current assets			
Spare parts, fuel, anchors and batteries	20	7 854	11 754
Trade receivables	21	8 534	18 580
Other receivables	19	7 080	5 665
Cash and cash equivalents	22	14 038	31 749
Restricted cash	22	4 841	6 680
Total current assets		**42 347**	**74 428**
Total assets		**111 292**	**165 124**
EQUITY			
Capital and reserves attributable to equity holders			
Share capital, share premium and other paid-in equity	14	319 283	319 039
Other reserves		-1 608	-8 925
Retained earnings		-284 975	-232 144
Total equity		**32 700**	**77 970**
LIABILITIES			
Non-current liabilities			
Provisions	26	19 140	17 371
Financial liabilities	24	4 668	0
Borrowings	24	31 636	30 848
Total non-current liabilities		**55 444**	**48 219**
Current liabilities			
Trade payables	25	6 672	10 439
Current tax liabilities	13	5 853	5 257
Other short term liabilities	27	10 372	16 243
Financial liabilities	24	0	6 326
Borrowings	24	251	670
Total current liabilities		**23 148**	**38 935**
Total liabilities		**78 592**	**87 154**
Total equity and liabilities		**111 292**	**165 124**

Consolidated Statement of Cash Flows.

1 January - 31 December

Amounts in USD 1 000	Note	2016	2015
Net cash flow from operating activities			
Income/(loss) before income taxes		**-52 931**	**-73 003**
Adjustments for:			
Withholding tax expenses		1 219	987
Total taxes paid		-522	-1 008
Depreciation and ordinary amortisation	16, 17	7 677	12 679
Multi-client amortisation and impairment	16	27 722	23 952
Impairment of other long term assets	16, 17	808	16 023
Cost of share-based payment		245	104
Change in trade receivables		10 046	46 951
Change in inventories		3 900	3 152
Change in trade payables		-3 767	-2 924
Change in other working capital		2 317	-230
Financial gain on bond repayment		0	-2 088
Amortisation of interest		2 413	3 709
Net cash flow from operating activities		**-873**	**28 304**
Investing activities:			
Purchase of property, plant and equipment		-3 398	-7 658
Investment in multi-client library and JIP test		-11 500	-34 379
Sale of financial assets		1 375	0
Cash used in investing activities		**-13 523**	**-42 037**
Financial activities:			
Financial lease payments - principal		141	-299
Proceeds from issuance of ordinary shares	14	0	31 536
Proceeds from new loan		0	945
Repayment/settlement of loan and FRA		-1 143	-8 898
Payment of interest on bonds		-2 313	-3 015
Cash used in/provided by financial activities		**-3 315**	**20 269**
Net change in cash		**-17 711**	**6 536**
Cash balance beginning of period		31 749	25 213
Cash balance end of period		14 038	31 749
Net change in cash		**-17 711**	**6 536**
Interest paid		-2 471	-3 270
Interest received		217	352

Consolidated Statement of Changes in Equity.

Amounts in USD 1 000	Note	Share capital share premium and other paid-in-capital	Foreign currency translation reserves	Available-for-sale reserve	Retained earnings	Total equity
Balance as of 1 January 2015		**287 398**	**-1 751**	**-3 984**	**-155 429**	**126 234**
Income/(loss) for the year		0	0	0	-76 715	**-76 715**
Other comprehensive income		0	28	-3 218	0	**-3 190**
Total comprehensive income		**0**	**28**	**-3 218**	**-76 715**	**-79 905**
Proceeds from shares issued	14	31 536	0	0	0	**31 536**
Share-based payments	14	105	0	0	0	**105**
Balance as of 31 December 2015		**319 039**	**-1 723**	**-7 202**	**-232 144**	**77 970**
Income/(loss) for the year		0	0	0	-52 831	**-52 831**
Other comprehensive income		0	115	7 202	0	**7 317**
Total comprehensive income		**0**	**115**	**7 202**	**-52 831**	**-45 514**
Share-based payments	14	244	0	0	0	**244**
Balance as of 31 December 2016		**319 283**	**-1 608**	**0**	**-284 975**	**32 700**

Oslo, 29 March 2017
Board of Directors and CEO of Electromagnetic Geoservices ASA

Sign.

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, Mexico, Malaysia, Cyprus, Canada and the United Kingdom.

The Company is a public limited liability company incorporated and domiciled in Norway which shares and bonds 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 29 March 2017.

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). 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, except for available-for-sale financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements 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 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 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 be 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.

2.5 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 US 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.

2.6 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

The Group performs EM services under contract for a specific customer, whereby the EM data is owned by the customer. The Group recognises contract revenues (whether priced as Lump Sum, Day Rate or Unit Price) based on the percentage of completion method (POC). Progress is measured in a manner generally consistent with the physical progress on the project. Any amount received greater than that calculated as recognisable will be recorded on the balance sheet as deferred revenue and recognised in the applicable future periods. Conversely, any earned but unbilled revenue will be recognised as revenue in the current period and recorded as accrued revenue on the balance sheet.

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

Sales made prior to commencement of acquisition for a project and sales while the projects are in progress are presented as pre-funding revenues. 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 in a manner generally consistent with the physical progress on the project. Any amount received greater than that calculated as recognisable will be recorded on the balance sheet as deferred revenue and recognised in the applicable future periods. Conversely, any earned but unbilled revenue will be recognised as revenue in the current period and recorded as accrued revenue on the balance sheet.

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.

Uplift

Uplift revenues can arise if a customer that has already bought a license for EM data, is awarded acreage covered by the data bought. Uplift revenue is recognised when the customer is awarded the acreage.

2.7 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.

2.8 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 under water during operation and have a shorter useful life.

** A cluster consists of IT equipment comprising of large number 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 2.12).

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

2.9 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 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.

2.10 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 or 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.

Based on amendment to IAS 38, the Group changed its principles for multi-client amortisation from 1 January 2016. After a project is completed, a straight-line amortisation is be applied. The straight-line amortisation is assigned over the useful life, which is set at four years. The straight-line amortisation is distributed evenly through the financial year independently of sales during the quarters. During the acquisition and processing phase of the project, amortisation is based on total cost versus forecasted total revenues of the project.

In 2015 and earlier, the Group amortised its multi-client library primarily based on the ratio between the cost of the surveys and the total forecasted sales for such surveys. Surveys were 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 was based on the ratio of its remaining net carrying value to its remaining estimated revenues. Amortisation was recorded each time there has been a multi-client sale on surveys with a carrying value higher than zero.

The Group also applied minimum amortisation criteria for the library projects based on a three-year life. Under this policy, the book value of each survey was reduced to a specified percentage by each quarter end, based on the age of the survey. The maximum book value of the multi-client library surveys is summarised as follows:

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

The calculated minimum linear amortisation was recorded quarterly after amortisation for sales.

2.11 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.

2.12 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 applied.

The Group bases its impairment calculation on budget and forecast calculations.

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.

2.13 Financial instruments

Classification of financial instruments
Financial instruments within the scope of IAS 39 are classified in the following categories:

- fair value with changes in value through profit or loss (FVPL)
- loans and receivables
- held to maturity investments (HTM)
- financial instruments available for sale (AFS)
- other liabilities

The classification is dependent on the type of instrument and the purpose for which the investments were acquired or originated.

Financial assets at FVPL are financial assets held for trading. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading as the Group does not apply hedge accounting.

Loans and receivables are non-derivative financial assets with fixed or determinable cash flows that are not quoted in an active market.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group has the positive intention and ability to hold until maturity

All other financial assets, except for derivatives, are classified as AFS and would generally include equity and debt securities.

Other financial liabilities are generally the main category for loans and borrowings.

The Group has financial instruments in the following categories:

FVPL:	Derivative instruments – Forward rate agreement (Note 24)
Loans and receivables:	Trade receivables and Other current receivables (Note: 19,21)
Other financial liabilities:	Includes most of the Group's financial liabilities including accounts payable and other current and non-current liabilities. (Note: 24, 25, 27)

Initial recognition and subsequent measurement
FVPL: Financial derivatives that are not designated as hedging instruments are categorised as held for trading and initially measured at their fair value. Subsequent changes in the fair value are recognised in the profit or loss. The Company has entered into forward rate agreement, the changes in fair value is therefore presented under Net financial items.

Loans and receivables are initially recognised at fair value plus directly attributable transaction expenses. Subsequently, these instruments are measured at their amortised cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Other financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Subsequently these liabilities are measured at their amortised cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Impairment of financial assets
Financial assets valued at amortised cost are written down when it is objective evidence that the instrument's cash flows have been negatively affected by one or more events occurring after the initial recognition of the instrument. The impairment loss is recognised in the income statement. The loss is measured as the difference between the asset`s

carrying value and the present value of estimated future cash flows discounted with the instruments original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced.

De-recognition of financial instruments
A financial asset is derecognised when the rights to receive cash flows from the asset have expired; or the Group has transferred its rights to receive cash flows from the asset and either (i) the Group has transferred substantially all the risks and rewards relating to the instrument, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards relating to the instrument, but has transferred control of the asset.

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, this is treated as derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

2.14 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 amount 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.

2.15 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.

From 1 December 2014, the Company has operated a defined contribution plan.

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.

2.16 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.

2.17 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.

2.18 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 2016:

- IAS 16 & IAS 38 amendments Clarification of Acceptable Methods of depreciation

The impact of implementing IAS 16 & IAS 38 is described under Note 2.10 d).

The other new and amended IFRS and IFRIC interpretations are not expected to have any significant effect for the Group.

2.19 Standards and interpretations issued, but not yet adopted

The financial statements have been prepared based on standards effective for the year ending 31 December 2016. 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 2018)
- IFRS 16 Leases (effective date 1 January 2019)

IFRS 9 Financial instruments
IFRS 9 brings together all three aspects of the accounting for financial instruments project; classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. The Group expects no significant impact on its balance sheet and equity when implementing IFRS 9.

IFRS 15 Revenue from contract with customers
IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

The Company has started the analysis of possible effects from implementing the standard on the Group's financial statements. For contract sales and late sales, no material effects are expected following the implementation of IFRS 15. Currently, the pre-funding revenues are recognised based on percentage of completion. The Group is evaluating whether the pre-funding revenues can continue to be recognised over time under IFRS 15, or whether revenues should be recognised as point(s) in time when the data is delivered to the customer. This will, depending on contract, result in a portion of the pre-funding revenues being recognised at several different points in time during the survey or all pre-funding revenues being recognised upon completion of the contract. The Group is currently assessing the impact of IFRS 15, and needs to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact. The Group has not yet concluded the analysis.

IFRS 16 Leases
IFRS 16 Leases replaces existing IFRS leases requirements, IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new leases standard requires lessees to recognise assets and liabilities for most leases, which is a significant change from current requirements. The Group leases vessels for its operation, and will have to change the recognition of these lease contracts accordingly. The vessel leases will be recorded as assets and corresponding financial lease liability in the balance sheet. The vessel lease expenses will be moved from charterhire, fuel and crew expenses to depreciation and interest expenses.

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 held available-for-sale (AFS) investments.

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.

The Group manages the exposure level of market risk by hedging its exposure to exchange rate fluctuations related to the bond loan. The Group does not apply hedge accounting.

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 investment that was sold in January 2016.

The sensitivity analysis in the following sections relate to the position as at 31 December 2016 and 2015. The sensitivity analysis has 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 excludes 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 2016 and 2015.

i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term loan with floating interest rate.

With all other variables held constant, fore everyone -percentage point hypothetical increase in NIBOR, the Group's annual net interest expense on the long-term loan will increase by approximately 311 at 31 December 2016 (2015: 306).

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 risk is primarily with respect to NOK in EMGS ASA. Approximately 97% of the Group’s sales are denominated in USD, whilst approximately 48% of costs are denominated in USD in 2016.

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
2016	+20%	7 324
	-20%	-7 324
2015	+20%	1 809
	-20%	-1 809

(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 three major customers amounted to a significant part of 2016 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. As EMGS expects a slow market for its services the next year, the Company has reduced the costs significantly in 2016 to strengthen the cash balance. In order to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company's bond loan, the Company has entered into an agreement with DNB Bank ASA 22 March 2017. The existing (i) USD 10 million revolving credit and (ii) the USD 10 million Guarantee facility are made fully available to the Company based on security in the form of guarantees from Siem Industries Inc. and Perestroika AS who receive market level guarantee commission. In addition, the Company will carry out a preferential rights issue with gross proceeds equal to the NOK equivalent of USD 17 million. The rights issue is fully underwritten by EMGS' three largest shareholders.

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 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
Year ended 31 December 2016								
Interest bearing loans and borrowings	0	553	564	1 123	2 239	32 346	0	36 825
Trade and other payables	0	12 225	1 409	9 256	0	0	0	22 890
Forward rate agreement	0	0	0	0	0	4 668	0	4 668
Other financial liabilities	0	48	67	136	280	463	0	994
Year ended 31 December 2015								
Interest bearing loans and borrowings	0	551	556	1 103	2 200	33 984	0	38 394
Trade and other payables	0	18 309	5 492	8 139	0	0	0	31 940
Forward rate agreement	0	0	6 326	0	0	0	0	6 326
Other financial liabilities	0	67	68	104	591	0	0	830

See Note 24 for financial liabilities.

The NOK 270 million bond loan contains financial covenants; free cash and cash equivalents of at least 10 000, and capital employed ratio of minimum 1/3. In addition, the bond agreement restricts the Company's ability, among other things, to sell multi-client library, declare or make any dividend payments, incur additional indebtedness, change our business, and enter speculative financial derivative agreements.

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 adjusts it considering changes in economic conditions. To maintain or adjust the capital structure, the Group may refinance its debt, issue new shares or sell assets. Due to the current market conditions, the Group considers a share issuance or a loan agreement to be potential sources for additional funding.

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. Progress is measured in a manner generally consistent with the physical progress on the project. 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.

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 discounted cash flow (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 cash generating unit being (CGU) 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, multi-client library, JIP (see description under Assets under construction below) and other assets 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.

Assets under construction

At least annually, management forecast future cash flows from the Joint Industry Project (“the JIP”). The JIP is supported by Shell and Statoil, for developing the Next Generation EM equipment. The project has been on-going since 2012 and continued throughout 2016. The carrying value of the JIP within assets under construction as of 31 December 2016 was 24 752.

In estimating future cash flows, management considers the probability for the partners to commit to contract work during future period, future market demand, expenses and timing of building a new equipment set. Because the inherent difficulty in estimating these factors, it is possible that future cash flows from these activities will not be sufficient to recover the existing carrying value of the JIP. See Note 17 for more details regarding the impairment test.

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 consequences of audit by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on several factors, such as the experience 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 2016 are 83 468 (2015: 73 554).

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.

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 2.10 c). Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to established project management model. At 31 December 2016, the carrying amount of capitalised development costs is 2 178 (2015: 2 017).

Note 5 – Shared revenue

The Company has since 2013 entered several cooperation agreements regarding EM multi-client surveys in the Barents Sea, Gulf of Mexico and Brazil.

EMGS has received funding and/or seismic data against a revenue share on prefunding, late sales and uplift revenues. EMGS has provided the vessel, performed the data acquisition and finally provided the data processing services. The acquired data remains the property of EMGS.

When EMGS licenses data to customers in areas subject to revenue sharing, the Company invoices and collects payments from the customers for the entire sales amount. The related accounts receivable is presented gross, while the portion due to the partner upon collection from the customer is presented as a short-term liability.

EMGS' share of the revenue from the sale of multi-client library with cooperation agreements in 2016 is 11 099 (2015: 14 364).

	EMGS' revenue share
Multi-client survey	
Brazil 2013	95%
Barents Sea 2013	70%
Barents Sea 2014	50%
Gulf of Mexico 2014	90%
Barents Sea 2015	50%

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 worldwide, the Group is not able to allocate any assets to different geographical areas.

Geographic information

Revenues from external customers:

Amounts in USD 1 000	**2016**	2015
Europe, Middle East and Africa	18 546	34 076
North and South America	5 421	36 096
Asia and the Pacific Ocean	20 560	10 967
Total	**44 527**	**81 140**

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

Three single external customers amounted to 10% or more of the Group's total revenues in 2016 (two single external customers in 2015). Total revenues from these customers were in 2016 12 535, 11 826 and 8 041 (for 2015: 24 550 and 10 967).

Note 7 – Charter hire, fuel and crew expenses

Amounts in USD 1 000	**2016**	2015
Charter hire and crew expenses	18 443	42 068
Fuel	2 761	6 993
Agent fee	771	124
Withholding tax cost	669	814
Capitalisation of multi-client costs	-10 964	-34 379
Other external services	6 496	16 782
Total charter hire, fuel and crew expenses	**18 176**	**32 402**

Note 8 – Employee expenses

Amounts in USD 1 000	**2016**	2015
Employee expenses		
Salaries	19 124	34 836
Social security tax	2 625	3 352
Pension costs (Note 23)	1 337	3 072
Other payments	1 765	3 461
Cost of share based payment (Note 15)	246	104
Total employee expenses	**25 097**	**44 826**
Compensation of key management personnel of the Group		
Salary	1 319	1 549
Bonus paid in the year	0	549
Share options	64	- 221
Pension benefits	62	69
Other benefits	332	524
Total management remuneration	**1 776**	**2 471**

A total cost of 1 031 related to restructuring plans in 2016 is included in the employee expenses.

The average number of full-time equivalents was 191 in 2016 (2015: 275).

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

Note 9 – Other operating expenses

Amounts in USD 1 000	**2016**	2015
Rental and housing expenses	2 501	3 211
Consumables and maintenance	1 330	1 794
Consultancy fees *	2 695	6 140
Travel expenses	875	2 091
Insurance	651	748
Marketing	189	1 131
Other operating expenses	1 896	5 492
Total other operating expenses	**10 137**	**20 607**
*** Fees to auditor included in consultancy fees:**		
Statutory audit services	169	189
Further assurance services	40	65
Tax advisory services	104	59
Other non-audit services	2	3
Total fees to auditor	**316**	**316**

The fees to auditor do not include VAT.

Note 10 – Research and development costs

Research and development costs consist of 851 (2015: 2 138) charged to the income statement as part of operating expenses.

Employee costs capitalised as development amounted to 544 (2015: 1 130). The capitalised employee costs are mainly related to software project and the JIP.

Note 11 – Financial items

Amounts in USD 1 000	2016	2015
Financial income:		
Interest income on short term bank deposits	217	352
Foreign exchange gains related to loans and receivables	24 976	24 341
Foreign exchange gains related to liabilities at amortised cost	386	7 241
Currency gain on forward agreement	924	0
Financial gain on repayment of bond	0	2 219
Total financial income	**26 502**	**34 153**
Financial expenses:		
Interest expense on financial leases and bank borrowings	13	173
Interest expense on bonds	2 413	3 709
Foreign exchange losses related to loans and receivables	23 850	27 426
Currency loss on forward agreement	0	6 326
Reclassification of accumulated loss on available-for-sale financial assset	7 220	0
Other financial expenses	846	173
Total financial expenses	**34 343**	**37 807**
Net financial items	**-7 841**	**-3 654**

The exchange rate effects in 2016 and 2015 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	2016	2015
Change in deferred tax asset	0	3 008
Current tax	-100	704
Total income tax expense	**-100**	**3 712**

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	2016	2015
Income/(Loss) before tax	-52 931	-73 003
Tax at the domestic rate of 25%	-13 233	-19 711
Non-deductible expenses	-158	-292
Change in non recognised deferred tax asset	9 914	14 119
Effect of change in tax rate	3 477	5 884
Foreign income taxes	-100	3 712
Tax charge	**-100**	**3 712**

Note 13 – Deferred tax

Amounts in USD 1 000	2016	2015
Deferred taxes detailed:		
Property, plant and equipment	-7 430	-13 612
Trade receivables		
Inventory	-245	-172
Accrued foreign income taxes	-1 405	-1 314
Other accruals	-343	-771
Loss carried forward	-74 045	-57 685
Total deferred tax (asset)/liability	**-83 468**	**-73 554**
Non-recognised deferred tax assets	**83 468**	**73 554**
Net deferred tax asset	**0**	**0**

Deferred tax assets are recognised only to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

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 whilst in the US it can be carried forward in 20 years.

The Group's temporary differences associated to investment in subsidiaries, for which deferred tax liability has not been recognised is immaterial both for 2016 and 2015.

The current tax liabilities of 5 853 mainly consist of accruals for taxes related to operations in Malaysia, Brazil and Canada.

Note 14 – Share capital, share premium and other paid in capital

Amounts in USD 1 000 (except number of shares)	Number of shares	Ordinary share capital	Share premium	Other paid-in capital	Total
At 1 January 2015	**199 765 555**	**7 678**	**261 230**	**18 491**	**287 398**
Proceeds from shares issued	1 112 000 000	31 687	0	0	**31 687**
Cost of shares issued		0	0	- 152	**- 152**
Share-based payment		0	0	105	**105**
At 31 December 2015	**1 311 765 555**	**39 365**	**261 230**	**18 444**	**319 039**
At 1 January 2016	**1 311 765 555**	**39 365**	**261 230**	**18 444**	**319 039**
Proceeds from shares issued	5	0	0	0	**0**
Share consolidation	-1 278 971 421	0	0	0	**0**
Share-based payment		0	0	244	**244**
At 31 December 2016	**32 794 139**	**39 365**	**261 230**	**18 688**	**319 283**

In 2016, the Company's shares were consolidated so that 40 shares, each having a par value of NOK 0.25, were consolidated into one share, having a par value of NOK 10.00.

The total authorised number of ordinary shares is 38 184 437 (2015: 1 339 742 107) with a par value of USD 1.16 (NOK 10) per share. All issued shares are denominated in NOK and fully paid.

The largest shareholders as of 31 December 2016:

	Number of ordinary shares	Percentage
Siem Investments Inc.	7 844 249	23.92%
Perestroika AS	6 993 857	21.33%
Morgan Stanley & Co. Llc	4 507 948	13.75%
Bækkelaget Holding AS	1 010 000	3.08%
Statoil Pensjon	701 458	2.14%
Sportsmagasinet AS	575 001	1.75%
NHO - P665AK	404 485	1.23%
Kristian Falnes AS	400 000	1.22%
J&J Investment AS	330 000	1.01%
DNB Navigator (II)	327 532	1.00%
Nordnet Livsforsikring AS	324 246	0.99%
Statoil Forsikring A.S	185 517	0.57%
Kovaci, Ramadan	162 575	0.50%
Flatholmen AS	137 000	0.42%
Nordnet Bank AB	136 140	0.42%
Falnes, Olav Kristian	130 000	0.40%
Rygg, Jan Wiggo	120 000	0.37%
Vestvik Preserving AS	115 746	0.35%
Haav Holding AS	112 500	0.34%
Jackwitz, Svein-Erik	101 326	0.31%
Other	8 174 559	24.93%
Total	**32 794 139**	**100.00%**

Note 15 – Share based payment transactions

Share options are granted to employees.

On 1 July 2016 EMGS ASA carried out a share consolidation of 40:1, meaning that 40 existing shares with par value of NOK 0.25 were combined into one new share with par value of NOK 10. The Share Option exercise price and number of share options were adjusted accordingly.

The expense recognised for employee services during the year is:

Amounts in USD 1 000	**2016**	2015
Expense arising from share based payment transactions	**244**	104

The vesting period is the period during which the conditions to obtain the right to exercise are to be satisfied. The options granted 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 CEO who started in February 2016 has an agreement that differ from the regular vesting schedule in the option program.

The options are granted in November 2015 and vest as follows:
• 33.33 % three years following the Grant Date
• 33.33 % four years following the Grant Date
• 33.33 % five 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 year ended 31 December 2015. No options were granted in 2016:

	2015
Expected volatility	66 %
Risk free interest rate	1.01%
Expected life of options (years)	5.8
Weighted average share price (USD)	0.06

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:

	2016		2015	
	Average exercise price in USD per share	**Options**	Average exercise price in USD per share	Options
At 1 January	0.58	18 847 090	1.51	12 647 007
Granted	0	0	0.03	10 460 115
Exercised	0	0	0	0
Released	0	358 083	0	22 032
Forfeited	2.26	655 075	1.31	4 218 000
Expired	15 036	11 050	3.41	20 000
Modification - converted as of July 1	0.57	17 399 858	0	0
At 31 December	**22.05**	**423 024**	0.58	18 847 090
Exercisable at 31 December	**54.91**	**148 575**	1.29	6 111 207

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

2016

	In USD per share	Options
2017	26.70	22 550
2018	54.13 and 63.85	11 100
2019	72.18 and 89.29	51 125
2020	1.16 and 41.64	131 083
2021	16, 18.09, 19.71 and 34.14	123 833
2022	1.16	83 333
		423 024

2015

	In USD per share	Options
2016	0.49	824 083
2017	0.66	1 017 000
2018	1.33 and 1.57	509 007
2019	1.77, 2.06 and 2.19	2 405 000
2020	0.03, 0.97 and 1.02	5 505 333
2021	0.03, 0.44, 0.48 and 0.84	5 253 333
2022	0.03	3 333 334
		18 847 090

The weighted average remaining contractual life for the share options outstanding as at 31 December 2016 is 3.99 years (2015: 4.72 years).

The weighted average fair value of options granted during the year 2015 was USD 0.05. No options were granted in 2016.

Note 16 – Intangible assets and goodwill

Amounts in USD 1 000	Software and licenses	Patents	Multi-client library	Total	Goodwill
Year ended 31 December 2015					
Opening carrying value	1 860	1 360	33 758	36 978	14 422
Additions	220	0	32 468	32 688	0
Transferred from assets under construction to intangible assets	1 852	0	0	1 852	0
Accumulated costs on disposals	0	0	0	0	0
Amortisation charge	-1 450	- 139	-8 631	-10 220	0
Accumulated depreciation on disposals	0	0	0	0	0
Impairment	0	0	-15 328	-15 328	-14 422
Closing carrying value	**2 482**	**1 221**	**42 267**	**45 970**	**0**
At 31 December 2015					
Accumulated cost	14 786	3 667	133 865	154 639	0
Accumulated amortisation and impairment	-12 304	-2 446	-91 598	-108 669	0
Net carrying value	**2 482**	**1 221**	**42 267**	**45 970**	**0**
Year ended 31 December 2016					
Opening carrying value	2 482	1 221	42 267	45 970	0
Additions	0	0	9 787	9 787	0
Transferred from assets under construction to intangible assets	218	0	0	218	0
Accumulated costs on disposals	0	0	0	0	0
Amortisation charge	-1 327	- 137	-11 244	-12 708	0
Accumulated depreciation on disposals	0	0	0	0	0
Impairment	0	0	-16 478	-16 478	0
Closing carrying value	**1 373**	**1 084**	**24 332**	**26 789**	**0**
At 31 December 2016					
Accumulated cost	15 004	3 667	143 652	164 644	0
Accumulated amortisation and impairment	-13 631	-2 583	-119 320	-137 855	0
Net carrying value	**1 373**	**1 084**	**24 332**	**26 789**	**0**

Asset	**Estimated useful life**
Patents	10 – 15 years
Software and licenses	3 years
Lease agreements	2.5 – 3.5 years
Multi-client library	4 years

Patents

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

Impairment of multi-client library

The Group performs impairment tests when there are indicators of impairment and at least once a year. The Group considers the relationship between the total revenue forecast and the book value of each multi-client project when reviewing for indicators of impairment, hence the book value of the multi-client projects is highly influenced by the future sales forecasts.

The Group recorded impairments of the multi-client library in of 16 478 in 2016 and 16 922 in 2015. The impairment test was done for each multi-client project individually. The net present value of the future sales for each project was compared to the book value of the project. When calculating the net present value of future sales, a discount rate of 15% was used. The sales forecasts were adjusted downwards for projects in the US Gulf of Mexico and one project in Indonesia in 2016. The interest for buying EM multi-client data in the US Gulf of Mexico has been low in 2015 and 2016. A significant part of the MC acreage is located in sub-salt areas, which are typically in remote deeper water where exploration appetite is limited in the current oil price environment. After the impairment, the book value of the multi-client library located in the US Gulf of Mexico amounted to 1 380 and the book value of the multi-client library in Indonesia amounted to 1 876. In 2015, the Group recorded impairment on projects in the US Gulf of Mexico, the Canada project, and two projects in Brazil.

Multi-client revenue recognised in 2016 amounted to 22 730 (2015: 36 132).

Impairment of goodwill

The Group impaired goodwill of 14 422 in June 2015. The Group considered the relationship between its market capitalisation and its book value when reviewing for indicators of impairment. As at 30 June 2015, the market capitalisation of the Group was below the book value of its equity.

Goodwill was not allocated since there is only one CGU within the Group. The recoverable amount of the Group, 199 129 as of 30 June 2015, was determined based on cash flow projections from financial budgets approved by management. The discount rate applied to cash flow projections was 9.8% and the cash flows beyond five years are extrapolated using a 2% growth rate. As a result of this analysis, the goodwill of 14 422 was impaired.

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
Year ended 31 December 2015					
Opening carrying value	14 936	3 110	1 201	19 247	31 164
Additions	491	313	0	804	7 689
Accumulated costs on disposals	-1 029	0	0	-1 029	0
Transferred from assets under construction to PPE	10 435	0	0	10 435	-12 287
Depreciation charge	-8 861	-1 725	- 504	-11 090	0
Accumulated depreciation on disposals	0	0	0	0	0
Impairment	-1 594	0	0	-1 594	0
Closing carrying value	**14 378**	**1 698**	**697**	**16 773**	**26 566**
At 31 December 2015					
Accumulated cost	125 165	22 987	12 375	160 527	26 566
Accumulated amortisation and impairment	-110 787	-21 289	-11 678	-143 754	0
Net carrying value	**14 378**	**1 698**	**697**	**16 773**	**26 566**
Year ended 31 December 2016					
Opening carrying value	14 378	1 698	697	16 773	26 566
Additions	718	534	0	1 252	4 804
Accumulated costs on disposals	- 881	- 101	0	- 982	0
Transferred from assets under construction to PPE	2 089	0	0	2 089	-2 307
Depreciation charge	-4 536	-1 292	- 385	-6 213	0
Accumulated depreciation on disposals	881	101	0	982	0
Impairment	0	0	0	0	- 808
Closing carrying value	**12 649**	**940**	**312**	**13 901**	**28 255**
At 31 December 2016					
Accumulated cost	127 091	23 420	12 375	162 886	28 255
Accumulated amortisation and impairment	-114 442	-22 480	-12 063	-148 985	0
Net carrying value	**12 649**	**940**	**312**	**13 901**	**28 255**

Asset	**Estimated useful life**
Machinery and equipment	3 – 8 years
Hardware and furniture	3 - 5 years
Cluster	5 years

Assets under construction

Assets under construction are internal capital expenditure projects that are not completed. These projects are mainly development and production of acquisition the EM equipment, including receivers, the source and the navigation system, supporting a more efficient operation and improved data quality 27 615 (2015: 25 407), but also interpretation and modelling software 640 (2015: 1 159). The impairment of 808 in 2016 is related to software that will not be commercialised.

JIP

EMGS is working on a Joint Industry Project ("the JIP"), supported by Shell and Statoil, for developing the Next Generation EM equipment. The benefit of using the JIP equipment is deeper penetration and significantly improved imaging at increased burial depths. The improved imaging leads to improved confidence and enhanced interpretation possibilities. The project has been ongoing since 2012 and continued throughout 2016. The carrying value of the JIP within assets under construction was 24 752, 6 121 under machinery and equipment and 19 140 as provision as of 31 December 2016. The value is linked to the construction of the prototype equipment and not the commercial equipment set. See Note 26 for prepayments from the JIP partners recorded as provision.

<u>Impairment test of the JIP</u>

The Group performs impairment tests when there are indicators of impairment and at least once a year. The Group considers the relationship between the total revenue forecast and the total book value of the JIP and possible future investments when reviewing for indicators of impairment.

The recoverable amount of the JIP equipment was higher than the book value as of 31 December 2016, and no impairment was recorded. The recoverable amount was determined based on cash flow projections from the 2017 budget and assumptions regarding additional revenue stream from the JIP equipment. The discount rate applied to cash flow projections was 15%.

The Company used the best estimate of additional revenue stream from the JIP equipment compared with the conventional equipment as revenue forecast in the impairment model. The JIP opens a new market for the Group as it increases the water depth from 3 000 meter as the limit on the conventional source to 4 500 meter on the JIP source. The cost base in the 2017 budget with 2% inflation from 2018 and onwards is used as basis for forecasting the expenses in the impairment calculation.

The discount rate used in the net present value calculation was based on the specific circumstances of the Group and was derived from its weighted average cost of capital (WACC). The WACC took both debt and equity into account. The cost of equity was derived from the expected return on investment by the Group's investors. The cost of debt was based on the interest-bearing borrowings the Group is obliged to service. The beta factor was in line with the industry beta.

Finance leasing included in property, plant and equipment

Amounts in USD 1 000	Machinery and equipment	Hardware and furniture	Total
Year ended 31 December 2015			
Cost of capitalised finance leases	944	721	1 665
Accumulated depreciation	-236	-721	-957
Net carrying value	**708**	**-**	**708**
Year ended 31 December 2015			
Cost of capitalised finance leases	944	537	1 481
Accumulated depreciation	-551	-60	-611
Net carrying value	**393**	**477**	**870**

The amount of property, plant & equipment pledged as security for liabilities has a net carrying value of 870 as of 31 December 2016 (2015: 708).

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 program.

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 remaining part of the payment of NOK 25 million was settled in cash. The conversion right of the loan was subject to a fair value adjustment.

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.

In January 2016, EMGS sold its 11,851,463 shares in North Energy ASA at a price of NOK 1.02 per share. Following the transaction, EMGS does not hold any shares in North Energy ASA. The value of the North Energy shares as of 31 December 2015 was 1 387, and the shares were sold at a price of USD 1 375 in January. The accumulated loss of USD 7 202 was reclassified from Comprehensive income to Net financial items in the Consolidated income statement.

Note 19 - Other receivables

Amounts in USD 1 000	**2016**	2015
Prepayments	4 399	4 323
Receivables VAT and taxes	1 209	400
Other receivables	1 471	942
Total other receivables	**7 080**	**5 665**

Note 20 – Spare parts, fuel, anchors and batteries

Amounts in USD 1 000	**2016**	2015
Equipment components and parts, at cost	6 150	9 402
Anchors and batteries, at cost	847	1 478
Fuel, at cost	857	874
Total Spare parts, fuel, anchors and batteries	**7 854**	**11 754**

The Group did an impairment of 1 942 equipment components and parts in 2016 (2015: 561).

Note 21 – Trade receivables

Amounts in USD 1 000	**2016**	2015
Accounts receivable	6 488	17 142
Accrued revenues	2 046	1 438
Total trade receivables	**8 534**	**18 580**

Trade receivables are non-interest bearing and the payment terms are generally net 30 days.

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.

Per 31 December 2016 EMGS did not find it necessary to make any provision for doubtful trade receivables (2015: 0).

39 of the 113 that is more than 120 days past due has been paid in January 2017. The remaining 74 that is more than 120 days past due is expected to be collected.

As at 31 December, the aging analysis of trade receivables is as follows:

Amounts in USD 1 000	**Total**	**Not Due**	**< 30**	**30 - 60 days**	**60 - 90 days**	**90 - 120 days**	**> 120**
	6 488	4 914	1 462	0	0	0	113

Note 22 – Cash and cash equivalents

Amounts in USD 1 000	**2016**	2015
Cash	14 038	31 749
Restricted cash	4 841	6 680
Total cash and cash equivalents	**18 879**	**38 429**

Cash earns interest at floating rates based on daily bank deposit rates.

Restricted cash consist of employee taxes withheld and accrual of service taxes in Brazil, see Note 31.

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.

In December 2014, EMGS changed the pension plan from a defined benefit pension plan to a defined contribution pension plan for employees in EMGS ASA that are members of the Norwegian National Insurance Scheme. The defined benefit plan was terminated by issuance of paid-up policies for previously earned rights in the plan.
The new pension plan involved a contribution level of 7 % of Base Salary from 0 to 7.1 G and 25.1 % of Base Salary from 7.1 up to 12 G, where G is the base amount (Folketrygdens grunnbeløp) that equals to NOK 92 576 as of 31 December 2016.

The Company`s contribution to the Norwegian defined contribution plan for the year ended 31 December 2016 is 868. As of 31 December 2016, there are 91 employees covered by the defined contribution pension plan (2015: 134).

Defined contribution schemes

Employees not eligible for coverage under the defined contribution plan applicable in Norway are eligible to participate in other Company pension schemes or to receive a pension compensation. All the schemes are considered defined contribution plans. For some of the schemes, subject to statutory limitations, employees may make voluntary contributions in addition to the Company’s contributions. Total pension scheme contributions made by the Company in 2016 is 1 337.

Note 24 – Financial liabilities

Amounts in USD 1 000	Interest rate	Maturity	**2016**	2015
Non-current				
NOK 270 million bond	3 month NIBOR +6.00%	27/06/2019	30 894	30 257
Financial lease liabilites	3 month NIBOR +3.65% and 5.36%	2-3 years	743	591
Forward rate agreement		27/06/2019	4 668	0
			36 305	**30 848**
Current				
Sequred overdraft	7.00%	At request	0	407
Financial lease liabilites	3 month NIBOR +3.65% and 5.36%	Up to 1 year	251	263
Forward rate agreement		27/06/2016	0	6 326
			251	**6 996**
Total financial liabilities			**36 556**	**37 844**

NOK 270 000 000 bond

On 26 June 2013, EMGS secured a NOK 350 million bond bearing an interest at 3 months NIBOR + 6.00% p.a. On 22 December 2015, EMGS bought back NOK 80 million nominal outstanding amount at 80% of par. Following settlement, the nominal outstanding amount of the bond was NOK 270 million.

The new amendments to the terms of the bond was approved 19 November 2015, and the maturity date of the bond was extended by 36 months, from 27 June 2016 to 27 June 2019.

The bond is unsecured.

Forward rate agreement

In February 2015, EMGS entered into a forward rate agreement with the purpose of reducing its exposure to exchange rate fluctuations related to the NOK 350 million bond loan. In June 2016, the forward contract was amended by a new contract. The NOK amount was reduced to NOK 270 million and the settlement date was postponed to 27 June 2019. The negative market value related to the NOK 270 million was continued in the amended contract, while the negative market value of the difference between NOK 350 million and NOK 270 million of 734 was paid in 2016. The Company will transfer a collateral if the negative market value of the contract exceeds USD 4 million. Until end of 2017, the threshold of USD 4 million will gradually be reduced to 0 for the remaining period of the contract.

The forward rate agreement is not treated as a hedge, as the agreement is not specifically designated as a hedge of firm commitments or certain cash flow. Consequently, the forward rate agreement is recorded at estimated fair value with gains and losses included in the line Net gains/(losses) of financial assets and liabilities in the Consolidated income statement.

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.

Secured overdraft

On 6 February 2014, EMGS signed an overdrafts agreement to fund the purchase of shares in North Energy ASA. The Company's repaid the secured overdraft in January 2016. The Company's shares in North Energy ASA served 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	**2016**	2015
6 months or less	31 888	31 518
6-12 months	0	0
1-5 years	0	0
Over 5 years	0	0
Total	**31 888**	**31 518**

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	**2016**	2015
1-3 years	31 468	30 848
4-5 years	169	0
Over 5 years	0	0
Total	**31 637**	**30 848**

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

Amounts in USD 1 000	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
NOK 270 million bond	30 894	30 257	15 138	24 206
Leasing liabilities	994	591	994	591

The fair value measurements are calculated using observable inputs (level 2). The fair value is calculated based on the last observable pricing of the bond in 2016, which was the 49% of par value in September 2016.

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

Amounts in USD 1 000	**2016**	2015
USD denominated	0	0
NOK denominated	31 888	31 518
Total	**31 888**	**31 518**

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

	2016	2015
NOK 270 million bond	7.82%	7.82%
Leasing liabilities	3.76%	6.82%

Fair values

The fair value hierarchy disclose how fair value is determined for financial instruments recorded at fair value in the consolidated financial statement.

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2: assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly.
Level 3: techniques for which all inputs which have a significant effect on the recorded fair value that is not based on observable market data.

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, other receivables, trade payables and other short term liabilities approximate their respective fair values because of short maturities of those instruments. The fair value of the forward exchange contract us estimated using quotes obtained from dealers in such financial instruments.
The carrying amounts, estimated fair values of the forward rate agreement including how fair value is determined are summarised as follows:

	31 December 2016			**31 December 2015**		
Amounts in USD 1 000	Carrying amounts	Fair values	Hierarchy level	Carrying amounts	Fair values	Hierarchy level
Financial assets measured at fair value						
Financial assets available for sale	0	0	2	1 387	1 387	2
Financial liabilities measured at fair value						
Forward rate agreement	4 668	4 668	2	6 326	6 326	2

Note 25 – Trade payables

Trade payables are generally non-interest bearing and the payment terns are net 30 days. Fair value of the payables equals the nominal value of 6 672 (2015: 10 439).

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 19 140 as provision for JIP prepayments per 31 December 2016 (2015: 15 371). The prepayments will be recorded as revenues when the JIP partners use the JIP equipment in EM surveys.

The Group has made a precautionary provision of 2 000 to cover PGS' legal fees in the Oslo City Court as of 31 December 2015, no such provision was made in 2016 as PGS will cover its own legal fees.

Note 27 – Other short term liabilities

Amounts in USD 1 000	**2016**	2015
Accrued expenses	2 948	4 778
Holiday pay	1 248	2 178
Social security taxes and other public duties	5 388	6 285
Other short term liabilities	788	3 002
Total other short term liabilities	**10 372**	**16 243**

Accrued expenses are generally on 30 days payment terms.

Note 28 – Finance lease obligations

The Company has finance lease agreements for receiver systems, and IT hardware.

Amounts in USD 1 000	**2016**	2015
Finance lease liabilities – minimum lease payments:		
No later than 1 year	308	327
After 1 year and no more than 5 years	792	631
After more than 5 years	0	0
Total minimum lease payments	**1 100**	**958**
Future finance charges on finance leases	-106	-105
Present value of finance lease liabilities	**994**	**853**
The present value of finance lease liabilities is as follows:		
No later than 1 year	251	262
After 1 year and no more than 5 years	743	591
After more than 5 years	0	0
Total present value of finance lease liabilities	**994**	**853**

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	**2016**	2015
Guarantees on client contracts	2 225	3 867
Other guarantees/collateral	352	1 982
Total guarantees	**2 577**	**5 849**

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	**2016**	201
No later than 1 year	11 717	22 32
After 1 year and no more than 5 years	39 438	17 72
After more than 5 years	970	2 13
Total operating lease commitments	**52 125**	**42 17**

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	**2016**	201
Charter hire	17 959	39 77
Office premises	1 981	2 52
Total	**19 940**	**42 29**

Note 31 – Legal claims

EMGS is involved in the following legal processes:

EMGS is currently in a tax dispute with the City of Rio de Janeiro. The case involves the applicability of ISS which is a municipal service tax. The entire claim amount of 3 586 was placed in a judicial deposit to avoid interest and penalties.

EMGS settled the three patent infringement disputes with PGS ASA on 12 April 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	**2016**	2015
Income/(loss) attributable to equity holders of the Company	-52 831	-76 715
Basic earnings per share	**-0.08**	**-0.33**
Diluted earnings per share	**-0.08**	**-0.33**
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands)	668 785	230 231
Effect of dilutive potential shares:		
Share options	0	0
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands)	668 785	230 231

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% (2015: 5%) commission on each PEMEX contract obtained by the Company. EMGS' former CEO, Bjarte H. Bruheim, holds 16% of the shares in Ocean Seismic.

The following transactions were carried out with related parties:

Amounts in USD 1 000	**2016**	2015
Purchases of goods and services		
Ocean Seismic	**86**	34[illegible]

Year end balances arising from purchase of goods:

Amounts in USD 1 000	**2016**	2015
Payables to related parties		
Ocean Seismic	**86**	34[illegible]

Note 34 – Investment in subsidiaries

Amounts in USD 1 000

Company	Share ownership/ voting rights 2016	Share ownership/ voting rights 2015	Equity 31 December 2016	Equity 31 December 2015	Location
emgs Americas 1 AS	100%	100%	- 9	- 4	Trondheim, Norway
CSEM Production AS	100%	100%	- 7	11	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100%	100%	- 827	- 131	Trondheim, Norway
Servicios Geologicos Electromagneticos do Brasil Ltda	100%	100%	-9 334	-8 715	Rio de Janeiro, Brasil
emgs Americas Inc	100%	100%	-1 395	-1 844	Delaware, USA
Electromagnetic Geoservices Malaysia Sdn Bhd	1%/100%	1%/100%	1 496	- 681	Kuala Lumpur, Malaysia
emgs Asia Pacific Sdn Bhd	100%	100%	1 666	813	Kuala Lumpur, Malaysia
emgs Australia Pty Ltd	100%	100%	107	118	Perth, Australia
EMGS Global AS	100%	100%	1 028	1 066	Trondheim, Norway
emgs Sea Bed Logging Mexico S.A. de C.V.	100%	100%	-10 974	-4 719	Col. Del Valle, Mexico
emgs Shipping Mexico S. de R.L. de C.V.	49%/100%	49%/100%	2 954	1 562	Col. Del Valle, Mexico
emgs Services Mexico S.A. de C.V.	99%	99%	231	- 418	Col. Del Valle, Mexico
emgs Labuan Ltd	100%	100%	984	933	Labuan, Malaysia
emgs Asia Pacific Labuan Ltd	100%	100%	- 380	- 322	Labuan, Malaysia
EMGS Geophysical Limited	100%	100%	0	0	Nicosia, Cyprus
EMGS Global Services (Cyprus) Limited	100%	100%	0	0	Nicosia, Cyprus
EMGS MCL Limited	100%	100%	0	0	Nicosia, Cyprus
EMGS Surveys AS	100%	100%	7 347	7 349	Trondheim, Norway
Electromagnetic Geoservices UK Ltd	100%	100%	2 992	3 436	London, UK
EM Multi-client AS	100%	100%	-22 918	-7 877	Trondheim, Norway
Electromagnetic Geoservices Canada Inc	100%	100%	- 615	- 430	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

New charter agreement for the BOA Thalassa

On 20 January 2017, EMGS signed a new charter agreement for the vessel BOA Thalassa at new and improved commercial terms. The new terms are valid through 1 October 2019 with an option to extend the new agreement through 1 April 2021. EMGS and the owners of the vessel have agreed to a reduction of the charter hire rate by approximately 20% and some additional flexibility during 2017. The new contract will have a firm start on 1 October 2017, but the vessel remains available, as an option to EMGS, on a project by project basis between 1 April (expiry date of current contract) and 1 October 2017. The new terms are valid in this period.

Financing

EMGS entered into an agreement with DNB Bank ASA 22 March 2017 to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company's bond loan. The existing (i) USD 10 million revolving credit and (ii) the USD 10 million Guarantee facility are made fully available to the Company based on security in the form of guarantees from Siem Industries Inc. and Perestroika AS who receive market level guarantee commission.

In addition, the Company will carry out a preferential rights issue with gross proceeds equal to the NOK equivalent of USD 17 million. The rights issue is fully underwritten by EMGS' three largest shareholders.

Bond buy-back

On 23 March 2017, the Company offered its bondholders to buy back in full their nominal outstanding amount at a price equivalent to 70% of the par value. The result of the bond buy-back was that 9% of the bondholders accepted the offer and USD 2 million will be used to buy back these bonds. This will reduce the bond loan interest expenses by 9%.

Financial statements.

EMGS ASA

Income Statement.

1 January - 31 December

Amounts in NOK 1 000	Note	2016	2015
Operating revenues			
Contract sales	1, 11	171 279	618 894
Multi-client sales	1, 11	148 062	278 450
Total operating revenues		**319 341**	**897 344**
Operating expenses			
Charter hire, fuel and crew expenses	4	133 330	359 056
Employee expenses	5, 6	193 216	329 792
Depreciation and ordinary amortisation	7	46 538	73 120
Multi-client amortisation	7	53 895	69 702
Impairment of long-term assets	7	21 151	32 771
Other operating expenses	22	88 884	174 978
Total operating expenses		**537 013**	**1 039 419**
Operating income		**-217 672**	**-142 075**
Financial income and expenses			
Financial income	16	65 788	177 901
Financial expense	16	-295 151	-385 706
Net financial items		**-229 364**	**-207 805**
Income/(loss) before income tax		**-447 035**	**-349 880**
Income tax expense	8	0	0
Income/(loss) for the year		**-447 035**	**-349 880**

Balance Sheet.

As of 31 December

Amounts in NOK 1 000	Note	2016	2015
ASSETS			
Non-current assets			
Intangible assets	7	129 090	127 424
Property, plant and equipment	7, 9	86 455	95 867
Assets under construction	7	189 021	173 956
Investments in subsidiaries	10	1 371	56 321
Financial assets	24	0	12 207
Total non-current assets		**405 937**	**465 775**
Current assets			
Spare parts, fuel, anchors and batteries	3	52 899	68 725
Trade receivables	9, 11, 12	18 501	80 641
Receivables group companies	12, 23	694 654	819 234
Other receivables	18	23 429	22 832
Cash and cash equivalents		41 349	233 784
Restricted cash	13	11 029	33 331
Total current assets		**841 861**	**1 258 547**
Total assets		**1 247 798**	**1 724 322**

Balance Sheet.

As of 31 December

Amounts in NOK 1 000	Note	2016	2015
EQUITY			
Paid-in-capital			
Share capital	14, 15	327 941	327 941
Share premium	14, 15	886 687	886 687
Other paid-in-capital	14, 15	109 560	107 510
Total equity		**1 324 188**	**1 322 138**
Retained earnings			
Other equity	15	-737 937	-333 606
Total retained earnings		**-737 937**	-333 606
Total equity		**586 251**	**988 532**
LIABILITIES			
Non-current liabilities			
Provisions	19	165 472	152 841
Borrowings	7, 17	273 296	270 427
Financial liabilities	17	40 360	0
Total non-current liabilities		**479 128**	**423 268**
Current liabilities			
Trade payables		53 929	79 473
Payable group companies	23	56 496	49 063
Current tax liabilities	8	12 059	12 915
Public taxes and duties payable	20	16 437	29 313
Other current liabilities	21	41 400	80 208
Financial liabilities	17	0	55 657
Borrowings	24	2 100	5 893
Total current liabilities		**182 419**	**312 522**
Total liabilities		**661 547**	**735 790**
Total equity and liabilities		**1 247 798**	**1 724 322**

Oslo, 29 March 2017

Board of Directors and CEO of Electromagnetic Geoservices ASA

Sign.

Cash Flow Statement.

1 January - 31 December

Amounts in NOK 1 000	2016	2015
A) Cash flow from operating activities		
Funds sourced from operations *)	-312 837	-161 488
Changes in inventories, accounts receivable and accounts payables	184 435	303 955
Other changes in working capital	48 139	-6 527
Net cash flow from operating activities	**-80 263**	**135 940**
B) Cash flow from investing activities		
Purchase of property, plant and equipment	-51 409	-62 464
Investment in multi-client library	-77 491	-127 270
Investments in financial assets	12 052	0
Net cash flow from investing activities	**-116 848**	**-189 738**
C) Cash flow from financial activities		
Proceeds from issuance of ordinary shares	0	276 666
Proceeds from new loan	1 785	7 216
Repayment of loan	0	-77 101
Payment of interests on loans and financial leases	-19 410	-26 756
Net cash flow from financial activities	**-17 625**	**180 026**
A+B+C) Net change in cash and cash equivalents	-214 736	126 227
Cash amd cash equivalents as 01.01	267 115	140 888
Cash and cash equivalents as 31.12	**52 379**	**267 115**
Calculation of cash amd cash equivalents		
Cash and cash equivalents	41 349	233 784
Restricted cash	11 029	33 331
Cash and cash equivalents 31.12	**52 379**	**267 115**
***) Calulation of funds sourced from operations**		
Income/(loss) before income tax	-447 035	-349 880
Depreciation and amortisation	100 433	142 822
Impairment of lomg-term assets	21 151	32 771
Cost of share-based payment	2 050	778
Amortisation of interest	20 284	30 393
Financial gain on repayment of bond	-9 720	-18 372
	-312 837	**-161 488**

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 had an impact on 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.

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.

Uplift

Uplift revenues can occur if a customer that has already bought a license for EM data, is awarded acreage covered by the data bought.

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 provided that a future economic benefit associated with development of the intangible asset can be established and costs can be measured reliably. Otherwise, the costs are expensed as incurred. Capitalised development costs are amortised linearly over its useful life.

Research costs are expensed as they are incurred.

Multi-client library

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

A multi-client project is considered complete when all components or 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 Company changed its principles for multi-client amortisation from 1 January 2016. After a project is completed, a straight-line amortisation is be applied. The straight-line amortisation is assigned over the useful life, which is set at four years. The straight-line amortisation is distributed evenly through the financial year independently of sales during the quarters. During the acquisition and processing phase of the project, amortisation is based on total cost versus forecasted total revenues of the project.

In 2015 and earlier, the Company amortised its multi-client library primarily based on the ratio between the cost of the surveys and the total forecasted sales for such surveys. Surveys were 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 was based on the ratio of its remaining net carrying value to its remaining estimated revenues. Amortisation was recorded each time there has been a multi-client sale on surveys with a carrying value higher than zero.

The Company also applied minimum amortisation criteria for the library projects based on a three-year life. Under this policy, the book value of each survey was reduced to a specified percentage by each quarter end, based on the age of the survey. The maximum book value of the multi-client library surveys is summarised as follows:

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

The calculated minimum linear amortisation was recorded quarterly after amortisation for 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 25 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.

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 the social security taxes related to the 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, where 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	2016	2015
Europe, Middle East and Africa	155 595	256 305
North and South America	54 842	546 286
Asia and the Pacific Ocean	108 903	94 754
Total	**319 341**	**897 345**

Out of the 319 341 in total operating revenues in 2016, 54 020 was intercompany revenues (2015: 410 589).

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

Note 2 – Shared revenue

The Company has since 2013 entered several cooperation agreements regarding EM multi-client surveys in the Barents Sea and Brazil.

EMGS has received funding and/or seismic data against a revenue share on prefunding, late sales and uplift revenues. EMGS has provided the vessel, performed the data acquisition and finally provided the data processing services. The acquired data remains the property of EMGS.

When EMGS licenses data to customers in areas subject to revenue sharing, the Company invoices and collects payments from the customers for the entire sales amount. The related accounts receivable is presented gross, while the portion due to the partner upon collection from the customer is presented as a short-term liability.

EMGS' share of the revenue from the sale of multi-client library with cooperation agreements in 2016 is 93 292 (2015: 107 499).

	EMGS' revenue share
Multi-client survey	
Brazil 2013	95%
Barents Sea 2013	70%
Barents Sea 2014	50%
Barents Sea 2015	50%

Note 3 – Spare parts, fuel, anchors and batteries

Amounts in NOK 1 000	**2016**	2015
Inventory type		
Equipment, components and parts	38 901	44 766
Anchors and batteries	7 323	16 795
Fuel	6 675	7 164
Total	**52 899**	**68 725**

Note 4 – Operating leases

Amounts in NOK 1 000	**2016**	2015
Operating leases recognised as expense in the period		
Charter hire	149 584	324 403
Office premises	10 339	11 787
Total	**159 923**	**336 190**

The Company has made a provision relating to the remaining charter period of the BOA Thalassa of 12 366 as of 31 December 2016 as the vessel is not expected to generate revenues (EM Leader 2015: 27 122).

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.

In December 2014, EMGS changed the pension plan from a defined benefit pension plan to a defined contribution pension plan for employees in EMGS ASA that are members of the Norwegian National Insurance Scheme. The defined benefit plan was terminated by issuance of paid-up policies for previously earned rights in the plan.

The new pension plan involved a contribution level of 7 % of Base Salary from 0 to 7.1 G and 25.1 % of Base Salary from 7.1 up to 12 G, where G is the base amount (Folketrygdens grunnbeløp) that equals to NOK 92 576 as of 31 December 2016. The Company`s contribution to the Norwegian defined contribution plan for the year ended 31 December 2016 is 7 289.

As

of 31 December 2016, 91 employees are covered by the defined contribution pension plan (2015: 134).

Note 6 – Remuneration

The average number of employees during 2016 was 148.

Amounts in NOK 1 000	**2016**	2015
Employee expenses:		
Salaries	155 972	275 604
Payroll tax	18 677	22 418
Pension costs	7 289	13 145
Other payments	11 279	18 625
Total	**193 216**	**329 792**

Employee expenses include 6 959 in provision for restructuring expenses in 2016 (2015: 15 786).

Executive Management remuneration

Amounts in NOK 1 000		Salaries*	Share options **	Pension benefit	Other benefits***	**Total remuneration**
Executive Management						
Stig Eide Sivertsen, CEO	01.01 - 31.01	1 678	0	0	31	1 709
Christiaan Vermeijden, CEO	01.02 - 31.12	3 179	702	143	295	4 320
Hege Veiseth, CFO	2016	1 837	33	157	13	2 040
David Neser, COO	2016	2 112	198	163	2 286	4 760
Ole A. Heggheim, EVP Strategic Dev.	01.01 - 11.02	1 744	- 397	27	133	1 507
Total		**10 550**	**537**	**491**	**2 758**	**14 336**

*Salaries are included severance payments made in 2016.

**Share options costs are posted as an expense under the Company´s option program in 2016.

***Other benefits include housing allowance, school fees, legal fees, electronic communication, group life insurance and memberships.

Payment after termination of contract

The former CEO (Roar Bekker) has a severance agreement which pays 18 month´s salary and benefits after termination of the contract. He retired in January 2015 and a severance of 2 454 has been paid in 2016.

Bjarte Bruheim was appointed CEO in January 2015 and he resigned from the position on 23 August the same year.
He has a severance agreement which pays 15 month´s consultant fee after termination of the contract.
A severance of 3 803 has been paid in 2016, and is recorded as consultant fee in other operating expenses.

The former CFO (Svein T. Knudsen) resigned from the position in December 2015 and he has a severance agreement which pays 12 month´s salary after termination of the contract. A severance of 2 294 was paid in 2016.

The EVP Strategic Development resigned from the position in February 2016 and a severance pay corresponding to 7 month´s salary, in total 1 112 has been in paid in 2016.

The EVP Sales & Marketing resigned from the position in August 2015 and he has a severance agreement which pays 9 month´s salary after termination of the contract. A severance of 730 has been paid in 2016.

Remuneration Policy

All members of the Executive Management Group, including 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´s goals and the individual goals. The Executive Management 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			2016
Board of Directors			
Eystein Eriksrud	Executive Director and Chairman of the Board	01.01 - 31.12	357
Guro Høyaas Løken	Non-executive Director	01.01 - 10.06	168
Petteri Soininen	Non-executive Director	01.01 - 31.12	0
Johan Kr. Mikkelsen	Non-executive Director	01.01 - 31.12	280
Mimi Berdal	Non-executive Director	01.01 - 31.12	376
Anne Øian	Non-executive Director	01.01 - 31.12	409
Christel Brønstad	Employee´s representative	01.01 - 31.12	0
Adam Robinson	Employee´s representative	01.01 - 31.12	0

The amounts listed under Directors fee have been expensed and paid in 2016.

The employee´s representatives are not paid directors fee and their remuneration as employees have not been included in the table above.

Share base payment

The Company has an option program (more details about the program is presented in note 15 for the Group).

The Company uses Black Scholes model to estimate the value of the options.

Amounts in NOK 1 000	Number of options OB	Converted 1 July 2016	Forfeited options	Excercised options	Number of options CB	Weighted average excercise price B	Weighted average remaining contractual life
Executive Management							
Christiaan Vermeijden	10 000 000	250 000	0	0	250 000	10.00	4.90
Hege Veiseth	85 000	2 125	-125	0	2 000	440.18	3.32
David Neser	625 000	15 625	0	0	15 625	431.52	3.05
Board of Directors							
Christel Brønstad	10 000	250	-50	0	200	569.05	1.45
Adam Robinson	128 000	3 200	-25	0	3 175	413.56	3.35

B – average exercise price for number of options by 31 December 2016.

Loans and guarantees

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

Auditor expense

Amounts in NOK 1 000	**2016**	2015
Auditor expenses		
Statutory audit services (excl VAT)	1 129	1 231
Tax advisory services (excl VAT)	873	475
Further assurance services (excl VAT)	337	528
Other non-audit services (excl VAT)	19	25
Total	**2 358**	**2 260**

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 2016	912 550	26 416	83 424	517 582	1 539 972	173 956
Purchases	27 579	0	1 781	77 492	106 852	43 975
Disposals	-5 351	0	0	0	-5 351	-21 924
Acquisition cost at 31 December 2016	**934 778**	**26 416**	**85 205**	**595 074**	**1 641 473**	**196 007**
Accumulated depreciation 1 January 2016	816 683	18 806	66 888	414 304	1 316 681	0
Depreciation/amortisation for the year	36 991	761	8 786	53 895	100 433	0
Disposals	-5 351	0			-5 351	0
Impairment	0	0	0	14 165	14 165	6 986
Accumulated depreciation 31 December 2016	**848 323**	**19 567**	**75 674**	**482 364**	**1 425 928**	**6 986**
Net carrying value	**86 455**	**6 849**	**9 531**	**112 710**	**215 545**	**189 021**
Depreciation rate (%)	13-33	7-10	33			

Depreciation/amortisation of fixed assets is calculated using the straight-line method.

The registered patents rights relate 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 2016 amounted to 96 313 (2015: 72 316).

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 5 years and the asset will be depreciated over a 3-5-year period.

The terms of the agreements are 3 months NIBOR +3.65% and 5.36%.

Finance leases

Amounts in NOK 1 000	**2016**	2015
Capitalised in the balance sheet 31 December	11 547	11 231
Accumulated depreciation	-4 690	-5 819
Net carrying value	**6 857**	**5 412**
Depreciation	2 887	1 804

Amounts in NOK 1 000	**2016**		2015	
	Nominal value	**Present value**	**Nominal value**	**Present value**
Leases due within 12 months	2 576	2 100	2 500	2 004
Leases due within the next 13-60 months	6 610	6 200	4 816	4 512
Remaining debt on leasing contracts 31 December	**9 186**	**8 300**	**7 316**	**6 516**

Amounts in NOK 1 000	**2016**	2015
Specification of R&D expenses		
External expenses	492	6 708
Materials	317	1 300
Internal hours	2 655	9 342
Total R&D expenses	**3 464**	**17 350**

Note 8 – Income taxes

Amounts in NOK 1 000	**2016**	2015
Tax base specification:		
Profit before tax	-447 035	-349 880
Permanent differences	202 587	251 303
Changes in temporary differences	35 372	44 752
Tax expense abroad, paid	0	0
Taxable profit (this year tax base)	**-209 076**	**-53 824**
Tax losses carried forward	209 076	53 824
Taxable profit (this year tax base)	**0**	0
Income tax expenses:		
Non-creditable foreign income taxes	0	0
Total income tax expense	**0**	**0**
Temporary differences:		
Fixed assets	-138 603	-159 791
Accounts receivable	0	0
Inventory	-8 810	-6 061
Provisions tax liability abroad	-10 737	-12 915
Other accruals	-12 366	-27 122
Tax losses carried forward	-1 099 606	- 819 785
Total temporary differences	**-1 270 122**	**-1 025 673**
Non-recognised deferred tax asset	**-304 829**	**-256 418**

Non-recognised deferred tax asset

Amounts in NOK 1 000	**Tax base**	**25% tax**
Explanation why the tax is not 25% of income before tax:		
25% tax of income before tax	-447 035	-111 759
Permanent difference		50 647
Change in deferred tax assets, not recognised		48 411
Effect of change in tax rate		12 701
Non-creditable foreign income taxes		0
Calculated tax		**0**
Effective tax rate in %		**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 2016 or 31 December 2015.

Amounts in NOK 1 000	**2016**	2015
Collaterals		
Debts secured by pledge	0	3 582

Amounts in NOK 1 000	**2016**	2015
Pledged assets:		
Financial assets	0	12 207
Trade receivables	22 285	34 023
Cash and cash equivalents	5	17 306
Assets held under finance leases	3 850	0
Total carrying value of pledged assets	**26 140**	**63 536**

Note 10 – Investment in subsidiaries

Amounts in NOK 1 000	Share ownership/ Voting rights	Net carrying value shares in subsidiaries	Profit/Loss 2016	Equity 31 December 2016	Location
Sea Bed Logging - Data Storage Company AS	100 %	120	415	7 310	Trondheim, Norway
emgs Americas 1 AS	100 %	120	-6 803	-6 836	Trondheim, Norway
CSEM Production AS	100 %	120	- 13	- 61	Trondheim, Norway
EM Multi-client AS	100 %	30	-120 503	-229 910	Trondheim, Norway
EMGS Global AS	100 %	117	-2 113	7 300	Trondheim, Norway
EMGS Shipping Mexico S. de R.L de C.V.	49 %	1	7 698	21 204	Col. Del Valle, Mexico
EMGS Sea Bed Logging Mexico S.A. de C.V.	100 %	24	-17 845	-94 350	Col. Del Valle, Mexico
Servicos Geologicos Electromagneticos Do Brazil LTD	99 %	0	-51 980	-80 545	Rio de Janeiro, Brazil
EMGS Surveys AS	100 %	0	- 15	31 255	Trondheim, Norway
Electromagnetic Geoservices Malaysia Sdn Bhd	1 %	0	8 754	11 930	Kuala Lumpur, Malaysia
emgs Asia Pacific Sdn Bhd	100 %	840	8 067	15 100	Kuala Lumpur, Malaysia
EMGS Labuan Ltd	100 %	0	427	8 494	Labuan, Malaysia
EMGS Asia Pacific Labuan Ltd	100 %	0	- 485	-3 273	Labuan, Malaysia
emgs Australia Pty Ltd	100 %	0	- 81	935	Perth, Australia
Total		**1 372**	**-174 477**	**-311 446**	

Note 11 – On-going projects

Part of trade receivables that are recognized in 2016, but not invoiced per 31 December 2016 amounts to 1 452 (2015: 0).

Deferred revenue as of 31 December 2016 amounts to 1 297 (2015: 0).

The Company does not expect any loss on contracts in 2016.

Note 12 – Receivables

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

There has not been made any provision for loss on external receivables per 31 December 2016 (2015: 0).

Note 13 – Bank deposits

Restricted cash as of 31 December 2016:

Amounts in NOK 1 000	**2016**	2015
Guarantees	5	17 306
Employee tax	11 024	16 025
Total restricted cash	**11 029**	**33 331**

Note 14 – Share capital and Shareholder information

The Company's share capital consists of 32 794 139 shares at par value of NOK 10.00, giving a share capital of 327 941. In 2016, the Company's shares were consolidated so that 40 shares, each having a par value of NOK 0.25, were consolidated into one share, having a par value of NOK 10.00.

The largest shareholders as of 31 December 2016:

	Number of ordinary shares	Percentage
Siem Investments Inc.	7 844 249	23.92%
Perestroika AS	6 993 857	21.33%
Morgan Stanley & Co. Llc	4 507 948	13.75%
Bækkelaget Holding AS	1 010 000	3.08%
Statoil Pensjon	701 458	2.14%
Sportsmagasinet AS	575 001	1.75%
NHO - P665AK	404 485	1.23%
Kristian Falnes AS	400 000	1.22%
J&J Investment AS	330 000	1.01%
DNB Navigator (II)	327 532	1.00%
Nordnet Livsforsikring AS	324 246	0.99%
Statoil Forsikring A.S	185 517	0.57%
Kovaci, Ramadan	162 575	0.50%
Flatholmen AS	137 000	0.42%
Nordnet Bank AB	136 140	0.42%
Falnes, Olav Kristian	130 000	0.40%
Rygg, Jan Wiggo	120 000	0.37%
Vestvik Preserving AS	115 746	0.35%
Haav Holding AS	112 500	0.34%
Jackwitz, Svein-Erik	101 326	0.31%
Other	8 174 559	24.93%
Total	**32 794 139**	**100.00%**

	Shares
Leading representatives of the Company as of 31 December 2016 hold the following shares:	
CEO	0
CFO	1 642
COO/CTO	10 835
Board of Directors	28 274

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	Total
At 1 January 2016	327 941	886 687	107 510	-42 705	13 377	-304 279	988 532
Reclassification of loss on financial asset	0	0	0	42 705	0	0	42 705
Share-based payment	0	0	0	2 050	0	0	2 050
Loss of the year	0	0	0	0	0	-447 035	-447 035
At 31 December 2016	**327 941**	**886 687**	**107 510**	**2 050**	**13 377**	**- 751 314**	**586 251**

Note 16 – Financial items

Amounts in NOK 1 000	2016	2015
Financial income:		
Group contribution	0	4 000
Dividend from emgs Sea Bed Logging Mexico	35 706	0
Interest income subsideries	12 871	0
Interest income on short term bank deposits	812	907
Foreign exchange gains	6 736	154 622
Net gain on financial assets and liabilities	9 662	0
Other financial income	0	18 372
Total financial income	**65 788**	**177 901**
Financial expenses:		
Interest expense subsideries	1 829	0
Interest expense	21 612	33 569
Foreign exchange loss	20 081	47 255
Net loss on financial assets and liabilities	201 173	304 137
Reclassification of accumulated loss on available-for-sale financial assset	42 859	0
Other financial expenses	7 597	745
Total financial expenses	**295 151**	**385 706**
Net financial items	**-229 364**	**-207 805**

Note 17 – Financial liabilities

NOK 270 000 000 bond

On 26 June 2013, EMGS secured a NOK 350 million bond bearing an interest at 3 months NIBOR + 6.00% p.a. On 22 December 2015, EMGS bought back NOK 80 million nominal outstanding amount at 80% of par. Following settlement, the nominal outstanding amount of the bond was NOK 270 million.

The new amendments to the terms of the bond was approved 19 November 2015, and the maturity date of the bond was extended by 36 months, from 27 June 2016 to 27 June 2019.

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.

Secured overdraft

On 6 February 2014, EMGS signed an overdrafts agreement to fund the purchase of shares in North Energy ASA. The Company's repaid the secured overdraft in January 2016. The Company's shares in North Energy ASA served as the collateral for the overdrafts.

Amounts in NOK 1 000	Interest rate	Maturity	**2016**	2015
Non-current				
NOK 270 million bond	3 month NIBOR +6.00%	27/06/2019	267 095	266 221
Financial lease liabilites	3 month NIBOR +3.65% and 5.36%	2-3 years	6 201	591
Forward rate agreement		27/06/2019	40 360	0
Total			**313 656**	**266 812**
Current				
Sequred overdraft	7.00%	At request	0	3 582
Financial lease liabilites	3 month NIBOR +3.65% and 5.36%	Up to 1 year	2 100	263
Forward rate agreement		27/06/2016	0	55 647
Total			**2 100**	**59 492**
Total financial liabilities			**315 756**	**326 304**

Note 18 – Other receivables

Amounts in NOK 1 000	**2016**	2015
Other receivables:		
Prepaid expenses	8 998	6 101
Accrued investment from multi-client partner	0	0
VAT	2 568	5 627
Deferred mobilisation costs	0	4 656
Other	11 863	6 448
Total	**23 429**	**22 832**

Note 19 – Provisions

The Company 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 Company has recognised 165 472 as provision for JIP prepayments per 31 December 2016 (2015: 135 244).

Note 20 – Public taxes and duties payable

Amounts in NOK 1 000	**2016**	2015
Public taxes and duties payable:		
Employee taxes withheld	11 030	13 248
Employment tax	5 029	8 882
Tax foreign employees	202	6 874
Other	176	310
Total	**16 437**	**29 313**

Note 21 – Other current liabilities

Amounts in NOK 1 000	**2016**	2015
Provision for onerous contract	12 366	27 122
Accrued holiday pay	10 749	18 946
Accrued salaries	1 842	18 582
Deferred revenues	1 297	0
Accrued shared revenues to partners	0	0
Accrued vessel expenses	7 730	4 751
Other liabilities	7 415	10 807
Total	**41 399**	**80 208**

Note 22 – Other operating expenses

Amounts in NOK 1 000	**2016**	2015
Rental and housing expenses	12 918	14 256
Consumables and maintenance	10 136	10 522
Consultancy fee	15 840	37 111
Travel expenses	4 697	9 695
Insurance	5 549	5 495
Marketing	1 050	5 122
Intercompany expenses	25 817	53 319
Other operating expenses	12 876	39 458
Total	**88 884**	**174 978**

Provision for onerous contract relates to accrual of vessel expenses for the remaining charter period of Boa Thalassa.

Note 23 – Related parties

Sales and purchases of services, receivable and liabilities:

	2016				**2015**			
Amounts in NOK 1 000	**Liabilities**	**Receivables**	**Purchase**	**Sales**	**Liabilities**	**Receivables**	**Purchase**	**Sales**
Related parties								
Sea Bed Logging - Data Storage Company AS	0	16 089	0	10 953	0	0	0	19 097
emgs Americas 1 AS	0	100 702	0	0	0	98 515	0	16 791
CSEM Production AS	0	48	0	0	0	109	0	0
EM Multi-client AS	0	106 959	0	4 681	0	237 385	0	0
emgs Global AS	0	24 544	0	0	0	22 983	0	162 481
emgs Americas 1 AS Mexican Branch	0	13	0	0	0	14	0	0
emgs Americas Inc	0	3 964	39 461	0	0	2 837	74 941	0
EMGS Shipping Mexico S. de R.L de C.V.	0	61 390	0	0	0	64 530	0	70 615
EMGS Sea Bed Logging Mexico S.A. de C.V.	0	0	0	2 115	1 321	0	0	43 520
EMGS Sevices Mexico S.A de C.V	496	0	458	0	12		1 036	0
Electromagnetic Geoservices Canada Inc	0	31 283	0	0	0	34 947	0	0
Servicos Geologicos Electromag. Do Brazil LTDA	0	322 075	0	0	0	334 795	0	22 803
EMGS International BV	0	0	0	0	0	129	0	0
EMGS Surveys AS	0	58	0	0	0	58	0	0
EMGS UK Ltd	27 122	0	12 324	0	34 477		36 063	0
Electromagnetic Geoservices Malaysia Sdn Bhd	0	9 540	0	0	0	4 609	6 395	13 421
emgs Asia Pacific Sdn Bhd	28 878	0	14 401	4 368	13 253		18 510	0
emgs Labuan Ltd	0	16 309	0	31 903	0	5 365	0	61 861
EMGS AP Labuan Ltd	0	1 680	0	0	0	1 656	0	0
	56 496	**694 654**	**66 644**	**54 020**	**49 064**	**807 932**	**136 945**	**410 589**

In 2016, the Company made an accrual for loss on group company receivables of 146 420 (2015: 177 100)

Note 24 – Events after the reporting period

New charter agreement for the BOA Thalassa

On 20 January 2017, EMGS signed a new charter agreement for the vessel BOA Thalassa at new and improved commercial terms. The new terms are valid through 1 October 2019 with an option to extend the new agreement through 1 April 2021. EMGS and the owners of the vessel have agreed to a reduction of the charter hire rate by approximately 20% and some additional flexibility during 2017. The new contract will have a firm start on 1 October 2017, but the vessel remains available, as an option to EMGS, on a project by project basis between 1 April (expiry date of current contract) and 1 October 2017. The new terms are valid in this period.

Financing

EMGS entered into an agreement with DNB Bank ASA 22 March 2017 to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company's bond loan. The existing (i) USD 10 million revolving credit and (ii) the USD 10 million Guarantee facility are made fully available to the Company based on security in the form of guarantees from Siem Industries Inc. and Perestroika AS who receive market level guarantee commission.

In addition, the Company will carry out a preferential rights issue with gross proceeds equal to the NOK equivalent of USD 17 million. The rights issue is fully underwritten by EMGS' three largest shareholders.

Bond buy-back

On 23 March 2017, the Company offered its bondholders to buy back in full their nominal outstanding amount at a price equivalent to 70% of the par value. The result of the bond buy-back was that 9% of the bondholders accepted the offer and USD 2 million will be used to buy back these bonds. This will reduce the bond loan interest expenses by 9%.

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Electromagnetic Geoservices ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Electromagnetic Geoservices ASA, which comprise the financial statements for the parent company and the Group. The financial statements for the Parent Company comprise the balance sheet as at 31 December 2016, statements of income and cash flows for the year then ended and a summary of significant accounting policies.

The consolidated financial statements comprise the statement of financial position as at 31 December 2016, the statements of income, other comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Impairment evaluation of Multiclient libraries

Multi-client library accounts for 22% of total assets of the Group and 9% of the Parent company. The Company performs impairment reviews and determines the value in use. The Company estimated value in use using estimated future sales forecasts. The forecasts are based on budgets and assumptions about future market demand and spending on exploration and production by oil companies, including licensing activities. The forecasts require judgment from management about the future market condition. Impairment of multi-client data libraries is a key audit matter based on the current market conditions and the significant judgement involved. After impairment of USD 16.5 million for the Group and NOK 14.2 million for the Parent company in 2016 the book value is USD 24.3 million for the Group and NOK 112.7 million for the Parent company at 31 December 2016.

We evaluated management's assessment of impairment indicators and management's estimates related to sales forecast. Our audit procedures included inquiries and evaluations of management's assumptions regarding the current market situation and expectations about future oil prices, licensing rounds, and exploration activities. Furthermore, we evaluated the valuation methodology, amortisation policy and the discount rate applied, and tested the mathematical accuracy of the value in use calculation. Our audit procedures also included analysis and evaluation of historical accuracy of prior year's forecasts. We assessed the Company's disclosures regarding assumptions and recognized impairment losses of multi-client data libraries disclosed in notes 4 – "Significant accounting estimates, judgments and assumptions" and 16 – "Intangible assets and goodwill" of the consolidated financial statements.

Impairment evaluation of "Next Generation EM Equipment"

The company has capitalized costs related to "Next Generation EM equipment", also referred to as the "Joint Industry Project» in the financial statements. As of 31 December 2016 capitalized amount is USD 30.9 million for the Group and NOK 201.7 million for the Parent company. The value in use assessment to support the carrying amount of the equipment involves the application of subjective judgement about future market demand and spending on exploration and production by oil companies and remaining cost to commercialize the equipment. Considering the significance of the capitalized asset and the related estimation uncertainty, we assess impairment testing as a key audit matter.

We evaluated management's future cash flow forecasts related to the "Next Generation EM Equipment" and the process by which they were determined, including testing the mathematical accuracy of the underlying calculations. Our audit procedures included inquiries of management and evaluation of the assumptions, including estimated cash flow forecasts and discount rates. We compared forecasted revenues, related operating costs and estimated remaining cost to commercialize the equipment to budgets approved by the Board of Directors, historical information on operating costs and accuracy in management's forecasts for prior periods. Further, we assessed the key assumptions for growth rates in the cash flow forecasts by comparing them to historical results, and economic forecasts for the industry. We also assessed the discount rates by independently estimating a range based on market data and evaluated management's sensitivity analysis.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board and Chief Executive Officer (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If,

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based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is 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 International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and in 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 Board of Directors' report concerning the financial statements and in the statements on corporate governance and corporate social responsibility, the going concern assumption and 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 management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 29 March 2017
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Finn Ole Edstrøm
State Authorised Public Accountant (Norway)

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