EMGS third quarter

15/11/2012

emgs

Highlights in the third quarter 2012

· Financial results:
  - Total revenues at USD 43.2 million for the quarter
  - EBITDA of USD 7.3 million
  - Net loss of USD 5.8 million
· USD 20 million contract awarded in Asia
· PEMEX data acquisition successfully completed
· Expanding the addressable market through proof of concept surveys

Subsequent important events:

· West of Shetland and Norwegian Sea basalt mapping project fully pre-funded
· New 3D EM data acquisition project in Brazil

Key financial figures

USD million (except per share data)	Q3 2012	Q3 2011	YTD 2012	YTD 2011	2011	Q2 2012
Revenues	**43.2**	45.5	155.8	114.6	172.4	57.1
Operating profit/(loss)	**1.1**	8.8	27.6	12.6	25.1	14.8
Income/(loss) before income taxes	**(2.9)**	8.7	19.1	2.9	18.0	13.2
Net income	**(5.8)**	7.5	12.6	(2.2)	10.2	11.4
Earnings per share	**(0.03)**	0.04	0.06	(0.01)	0.06	0.06
Average number of shares outstanding (in thousands)	**198 500**	192 338	197 971	175 210	175 633	198 443
EBITDA	**7.3**	11.9	45.8	25.1	41.8	22.4
Multi-client investment	**3.2**	-	13.0	-	2.3	5.6
Adjusted EBITDA	**4.1**	11.9	32.8	25.1	39.5	16.8

Information related to shares is for ordinary shares. The number of ordinary shares outstanding at 30 September 2012, was 198 500 055.

Financial review

Revenues and operating expenses

EMGS recorded revenues of USD 43.2 million in the third quarter of 2012, down from USD 45.5 million in the third quarter of 2011. Contract sales totalled USD 39.0 million and multi-client sales came in at USD 4.2 million. In the corresponding period last year, EMGS recorded no multi-client sales. The company recorded 9.6 vessel months in the third quarter of 2012 as opposed to 9.0 in the third quarter of 2011. The slight reduction in revenues from the third quarter 2011 to the corresponding quarter in 2012, despite an increase in vessel months, is due to proof of concept surveys which totalled approximately two vessel months in the third quarter of 2012 as well as 1.5 vessel months related to multi-client activity.

Charter hire, fuel and crew expenses totalled USD 17.9 million in the third quarter of 2012, down from USD 18.6 million in the corresponding quarter in 2011. The reduction is mostly related to capitalization of multi-client costs of USD 3.2 million in the third quarter for 2012. No such capitalization was recorded in the third quarter of 2011.

Employee expenses increased from USD 11.0 million in the third quarter of 2011 to USD 12.9 million in the third quarter 2012 owing to higher operational activity.

Other operational expenses increased from USD 4.0 million in the third quarter last year to USD 5.1 million in 2012 due to an increase in operational activity.

Depreciation and amortisation

Depreciation and ordinary amortisation totalled USD 3.6 million in the third quarter 2012, up from USD 3.1 million in the same quarter in 2011. The increase is due to investment in new assets, all of which is related to equipment in the form of additional receiver capacity.

Multi-client amortisation totalled USD 2.7 million in the third quarter of 2012, while no such amortisation was recorded in the third quarter of 2011.

Net financial items

Net financial items was negative USD 4.0 million in the third quarter of 2012, while a loss of USD 0.1 million was reported in the corresponding period in 2011. In the third quarter of 2012, a loss on net foreign currency of USD 2.8 million was recorded, while a gain on net foreign currency of USD 1.3 million was recorded in the corresponding quarter last year.

Income/(loss) before income taxes

Loss before income taxes came in at USD 2.9 million in the third quarter 2012, compared with an income before income taxes of USD 8.7 million in the corresponding quarter in 2011.

Income tax expenses

Income tax expenses of USD 2.8 million were recorded in the third quarter of 2012, compared with an income tax expense of USD 1.2 million in the third quarter of 2011. These taxes relate to profits earned in foreign jurisdictions.

Net income for the period

Loss for the third quarter of 2012 ended at USD 5.8 million, down from an income of USD 7.5 million in the same period last year.

Balance sheet and cash flow

Cash and cash equivalents totalled USD 59.5 million at 30 September 2012, compared with USD 60.7 million at 30 September 2011. USD 8.1 million of the cash at 30 September 2012 was restricted, mainly due to client performance guarantees.

Trade receivables were USD 38.9 million at 30 September 2012, up from USD 28.2 million at 30 September 2011.

Total borrowings were USD 46.0 million at 30 September 2012, compared with USD 45.1 million at 30 September 2011.

Cash flow from operating activities was positive USD 23.9 million for the nine months ended 30 September 2012, compared with a positive cash flow from operating activities of USD 0.5 million in the comparable period in 2011.

Cash applied in investing activities in the first nine months of 2012 amounted to USD 27.6 million, compared with a positive USD 1.0 million in the same period in 2011. The investments in 2012 consist of USD 14.5 million in property, plant and equipment and USD 13.1 million in multi-client data.

Cash flow from financial activities was negative at USD 2.7 million in first nine months of 2012. The comparable amount in 2011 was positive USD 19.7 million, mainly due to proceeds from a new bond loan of NOK 250 million.

Operational review

EMGS defines 'utilisation' as vessel time spent on contracted or committed work, including paid mobilisation, as a percentage of time spent on vessel charter hire. The company recorded the following vessel utilisation in 2011 and the first three quarters of 2012:

	Q1	Q2	Q3	Q4
2011	87%	80%	77%	84%
2012	76%	88%	74%	

Vessel overview

Vessel	Status Q3	Utilisation Q3	Firm charter period	Optional charter period
BOA Thalassa	In operation	64%	18 December 2013	3 x 12 months
BOA Galatea	In operation	93%	17 July 2014	3 x 12 months
Atlantic Guardian	In operation	64%	25 November 2012	Project-to-project basis
EM Leader	On charter from 15 September	84%	15 December 2012	Optional 1-, 3-, 6- or 12-month charters until 9 Mar 2015
EM Express	Standby at no cost in Bergen	Not applicable	Not applicable	Optional 3-, 6- or 12-month charters until 9 May 2014

BOA Thalassa

The BOA Thalassa spent July and August completing 3D EM data acquisition under the multi-year contract with PEMEX. In September, the vessel conducted a proof of concept survey in the Gulf of Mexico under a collaboration project with ION. For some years, ION has offered an exploration program known as BasinSPANS. SPAN projects are primarily 2D seismic programs designed to provide insight into the geologic evolution, deep basin architecture, and depositional and structural history of a petroleum system. The resulting data provides oil and gas companies with new information and prospect generation opportunities for under-explored or unexplored, frontier basins. The deep resistivity data which was been obtained through a small 2D CSEM and MT survey in the eastern Gulf of Mexico, will be used to aid the interpretation of existing seismic data by clearly identifying basement, salt, carbonates and volcanic layers within the area of investigation. If successful, this project offers significant potential to open up a new market for EMGS. Costs for this survey were expensed and the four week data acquisition program was consequently recorded as non-utilised time.

On 29 September, the BOA Thalassa embarked on multi-client, proof of concept project in Keathley Canyon, Gulf of Mexico as part of the collaboration agreement between EMGS and WesternGeco. The 3D CSEM and MT data will be used to image complex salt bodies that have proved difficult to image with conventional wide azimuth seismic. WesternGeco will reprocess the seismic data based on the new resistivity data from EMGS, using their proprietary Simultaneous Joint Inversion. Deepwater subsalt wells can cost over USD 100 million, and if EM can deliver material improvements to subsalt imaging, there is a significant potential market for EM methods. This project is expected to be completed in the first week of December.

The BOA Thalassa's utilisation came in at 64% for the third quarter of 2012.

BOA Galatea
The BOA Galatea spent the entire third quarter performing 3D EM surveys in Brazil under a USD 90 million contract with Petrobras. Utilisation came in at 93%.

Atlantic Guardian
The Atlantic Guardian acquired multi-client 3D EM data in the Barents Sea during the first half of the third quarter. Subsequently, the vessel performed a proof of concept survey on the Norwegian Continental Shelf. This survey has been acquired using both traditional and Shelf Xpress sources to demonstrate the increased resolution and depth of investigation of the new Shelf Xpress source system for continental shelf applications. Costs for this survey have been expensed; consequently, the four weeks spent on this survey have been recorded as non-utilised time. The Atlantic Guardian spent the last two weeks of October acquiring data under a contract in the UK sector. The vessel's utilisation came in at 64% for the quarter.

EM Leader
The EM Leader was on charter from 15 September and subsequently mobilised for a USD 20 million contract in Brunei. Data acquisition commenced on 26 September and is expected to last until the end of December 2012.

Events in the quarter

On 2 August, EMGS signed a contract worth approximately USD 7 million with a major international oil company to provide 3D EM acquisition and processing services in the Asia Pacific region. On 10 September, EMGS reported that the contract had been cancelled in mutual understanding with the customer due to unforeseen delays in obtaining the government permits required to operate EMGS's vessel and equipment in the survey area.

On 16 August, EMGS received a Letter of Award for a contract worth approximately USD 20 million from a major international oil company to acquire 3D electromagnetic (EM) data offshore Brunei. The vessel EM Leader started acquiring data under this contract on 26 September with estimated completion at the end of December 2012.

Recent events

On 1 October, EMGS announced that it had commenced a fully pre-funded multi-client basalt mapping survey in the West of Shetland area. The company reported that the vessel Atlantic Guardian would acquire controlled-source electromagnetic (CSEM) and magnetotelluric (MT) data for a minimum of three weeks. Approximately three weeks later, the company reported that it had in response to industry demand expanded the multi-client basalt mapping project in the West of Shetland area to the Vøring Basin in the Norwegian Sea.

On 17 October, EMGS announced that it expected to report third quarter revenues of approximately USD 42 million and EBITDA of approximately USD 7 million based on preliminary and unaudited results. The company lowered its revenue guidance from USD 215 - 230 million to USD 210 million for the full financial year 2012 in light of the preliminary third quarter results, the company's forecast for the fourth quarter and uncertainty regarding multi-client sales in the fourth quarter. The company maintained its full-year guidance of approximately 30% EBITDA margin.

On 8 November, the company announced an updated vessel schedule.

On 13 November, EMGS announced that, following completion of the one-year contract in Brazil, the vessel BOA Galatea had commenced a new 3D EM data acquisition project in Brazil with estimated completion in early January.

Risks factors

EMGS is subject to a number of risk factors, of which the most important is the demand for EM services. EM technology is still a technology in its adoption phase, and considerable effort has to be undertaken in order to strengthen the market's awareness, adoption and integration of the services offered. EMGS intends to maintain a proper cost level and funding to match the future demand for its products and services.

The demand from oil and gas companies is also dependent upon a number of factors that affect offshore exploration and production expenditures in general.

In addition, there are risks associated with EM marine operations which might affect the profitability of projects. Examples include: Change in governmental regulations affecting EMGS's markets, technical downtime, adverse weather conditions, licenses and permitting, as well as delays in closing revenue-generating contracts. For a further description of other relevant risk factors, please refer to the Annual Report for 2011.

Outlook

EMGS expects to deliver annual revenue growth in 2013 with continued strong margins based on steadily increasing levels of industry interest for EM technology from new clients, late-sales potential from a growing multi-client library as well as on-going discussions with existing clients that indicate long-term contracts for the second half of 2013 and beyond. Although operational activity will be based on short contracts and limited backlog visibility for the remainder of 2012 and into the first half of 2013, the company expects to maintain healthy utilisation levels for its vessel fleet.

EMGS reiterates its previously communicated full-year 2012 guidance of revenues of approximately USD 210 million and a corresponding EBITDA margin of 30%.

Oslo, 14 November 2012
Board of Directors and CEO

Electromagnetic Geoservices Group

Consolidated income statement

Quarter ended 30 September

Amounts in USD 1 000	Q3 2012 Unaudited	Q3 2011 Unaudited	YTD 2012 Unaudited	YTD 2011 Unaudited	2011 Audited
Operating revenues					
Contract sales	**38 959**	45 510	141 554	107 687	162 904
Multi-client sales	**4 233**	-	14 281	6 951	9 510
Total operating revenues	**43 192**	**45 510**	**155 835**	**114 638**	**172 414**
Operating expenses					
Charter hire, fuel and crew expenses	**17 894**	18 631	56 107	45 930	67 105
Employee expenses	**12 899**	11 032	38 897	30 327	43 572
Depreciation and ordinary amortisation	**3 557**	3 105	9 799	9 927	13 019
Multi-client amortisation	**2 665**	-	8 421	2 600	3 675
Other operating expenses	**5 071**	3 952	15 049	13 276	19 904
Total operating expenses	**42 086**	**36 720**	**128 273**	**102 060**	**147 275**
Operating profit/(loss)	**1 106**	**8 790**	**27 562**	**12 578**	**25 139**
Financial income and expenses					
Interest income	**69**	102	162	173	221
Interest expenses	**-1 276**	-1 431	-4 101	-5 140	-6 516
Change in fair value of conversion rights	**-**	-	-	-1 353	-1 353
Net foreign currency income/(loss)	**-2 826**	1 263	-4 478	-3 386	475
Net financial items	**-4 033**	**-66**	**-8 417**	**-9 706**	**-7 173**
Income/(loss) before income tax	**-2 927**	**8 724**	**19 145**	**2 872**	**17 966**
Income tax expense	**2 845**	1 179	6 545	5 037	7 813
Income/(loss) for the year	**-5 772**	**7 545**	**12 600**	**-2 165**	**10 153**
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME					
Income/(loss) for the year	**-5 772**	**7 545**	**12 600**	**-2 165**	**10 153**
Exchange differences on translation of foreign operations	**4 374**	-5 462	4 382	1 752	-4 256
Total comprehensive income/(loss) for the year	**-1 398**	**2 083**	**16 982**	**-413**	**5 897**

Consolidated statement of financial position

As at 30 September

Amounts in USD 1 000	Nine months ended 30 September 2012	Nine months ended 30 September 2011	Year ended 31 December 2011
ASSETS			
Non-current assets			
Goodwill	**14 422**	13 502	14 422
Intangible assets	**14 679**	8 707	10 652
Property, plant and equipment	**27 835**	19 252	20 615
Assets under construction	**13 062**	10 955	14 275
Restricted cash	**-**	581	590
Total non-current assets	**69 998**	**52 997**	**60 554**
Current assets			
Spare parts, fuel, anchors and batteries	**11 634**	9 502	9 733
Trade receivables	**38 850**	28 196	27 761
Other receivables	**14 598**	9 768	6 207
Cash and cash equivalents	**51 408**	42 955	57 796
Restricted cash	**8 139**	17 186	16 553
Total current assets	**124 630**	**107 607**	**118 050**
Total assets	**194 629**	**160 604**	**178 604**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital, share premium and other paid in equity	**268 020**	264 128	265 027
Other reserves	**-46**	-2 160	-4 428
Retained earnings	**-157 235**	-182 154	-169 836
Total equity	**110 740**	**79 814**	**90 763**
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	**6 512**	5 300	5 051
Non-current tax liability	**422**	-	580
Borrowings	**44 684**	43 770	43 022
Total non-current liabilities	**51 618**	**49 070**	**48 653**
Current liabilities			
Trade payables	**15 355**	11 539	14 276
Current tax liabilities	**3 502**	4 778	7 082
Other short term liabilities	**12 072**	14 055	16 552
Borrowings	**1 340**	1 348	1 278
Total current liabilities	**32 270**	**31 720**	**39 188**
Total liabilities	**83 888**	**80 790**	**87 841**
Total equity and liabilities	**194 629**	**160 604**	**178 604**

Electromagnetic Geoservices Group

Consolidated statement of cash flows

Quarter ended 30 September

Amounts in USD 1 000	Nine months ended 30 September 2012	Nine months ended 30 September 2011	Year ended 31 December 2011
Net cash flow from operating activities:			
Income/(loss) before income tax	**19 145**	3 185	17 966
Adjustments for:			
Witholding tax expenses	**9 869**	4 459	4 459
Total taxes paid	**-19 994**	-6 418	-6 137
Depreciation and ordinary amortisation	**9 799**	10 946	13 019
Multi-client amortisation	**8 421**	2 600	3 675
Non-cash portion of pension expense	**1 461**	215	-35
Cost of share-based payment	**1 619**	412	497
Change in trade receivables	**-11 089**	-7 306	-7 121
Change in inventories	**-1 901**	335	-440
Change in trade payables	**1 079**	-2 753	1 525
Change in other working capital	**1 813**	-8 014	-9 113
Currency effect on convertible loans	**-**	-1 204	-
Amortisation of interest	**3 726**	4 064	5 262
Net cash flow from operating activities	**23 948**	**521**	**23 557**
Investing activities:			
Purchase of property, plant and equipment	**-14 514**	-916	-3 226
Purchase of intangible assets	**-**	-75	-6
Investment in multiclient library	**-13 076**	-	-2 741
Net cash flow from purchase of subsidiary	**-**	1 945	-
Cash used in investing activities	**-27 590**	**954**	**-5 973**
Financial activities:			
Financial lease payments - principal	**-856**	-1 567	-2 099
Payment of bond	**-**	-20 400	-20 400
Proceeds from bond offering	**-**	43 721	43 721
Proceeds from issuance of ordinary shares	**1 374**	1 042	1 872
Payment of interest on bonds	**-3 264**	-3 099	-4 222
Cash provided by financial activities	**-2 746**	**19 697**	**18 872**
Net increase in cash	**-6 388**	**21 172**	**36 456**
Cash balance beginning of period	**57 796**	39 550	21 340
Cash balance end of period	**51 408**	60 722	57 796
Increase in cash	**-6 388**	**21 172**	**36 456**

Electromagnetic Geoservices Group

Consolidated statement of changes in equity

Attributable to equity holders of the Company

Amounts in USD 1 000	Share capital, share premium and other paid-in equity	Foreign currency translation reserves	Retained earnings	Total equity
Balance at 30 September 2011 (Unaudited)	**264 128**	**-2 162**	**-182 154**	**79 814**
Currency translation differences	-	-2 266	-	**-2 266**
Income for the period	-	-	12 318	**12 318**
Total comprehensive income	-	-2 266	12 318	**10 052**
Cost of share-based payment	85	-	-	**85**
Proceeds from shares issued - private placement and options exercised	814	-	-	**814**
Balance at 31 December 2011 (Audited)	**265 027**	**-4 428**	**-169 836**	**90 763**
Currency translation differences	-	2 379	-	**2 379**
Income for the period	-	-	6 972	**6 972**
Total comprehensive income	-	2 379	6 972	**9 351**
Cost of share-based payment	504	-	-	**504**
Proceeds from shares issued - private placement and options exercised	915	-	-	**915**
Balance at 31 March 2012 (Unaudited)	**266 446**	**-2 049**	**-162 864**	**101 534**
Currency translation differences	**-**	**-2 371**	**-**	**-2 371**
Income for the period	-	-	11 401	**11 401**
Total comprehensive income	-	-2 371	11 401	**9 030**
Cost of share-based payment	576	-	-	**576**
Proceeds from shares issued - private placement and options exercised	107	-	-	**107**
Balance at 30 June 2012 (Unaudited)	**267 129**	**-4 420**	**-151 463**	**111 247**
Currency translation differences	-	4 374	-	**4 374**
Income for the period	-	-	-5 772	**-5 772**
Total comprehensive income	-	4 374	-5 772	**-1 398**
Cost of share-based payment	539	-	-	**539**
Proceeds from shares issued - private placement and options exercised - shares not registered	352	-	-	**352**
Balance at 30 September 2012 (Unaudited)	**268 020**	**-46**	**-157 235**	**110 740**

Notes to the financial statements

Accounting principles

The Group has applied the same accounting standards and policies as in the Group's financial statements at 31 December 2011, and has implemented standards, interpretations and amendments which were effective from 1 January 2012.

Segment reporting

EMGS reports its sales revenue as one reportable segment. The sales revenues and related costs are incurred worldwide.

The amounts below show sales revenues reported by geographic region.

Amounts in USD 1 000	**Q3 2012 Unaudited**	Q3 2011 Unaudited	YTD 2012 Unaudited	YTD 2011 Unaudited	2011 Audited
Americas	**36.3**	31.6	128.3	68.2	115.0
Asia/Pacific	**0.6**	-	10.9	10.2	16.5
EAME	**6.3**	13.9	16.6	36.2	38.7
Total	**43.2**	**45.5**	**155.8**	**114.6**	**170.2**

Statement of compliance

These condensed consolidated interim accounts have been prepared in accordance with IAS 34 and should be read in conjunction with the consolidated financial statements for the group for the year ending 31 December 2011. The group's financial statements are available upon request from the company's registered office in Trondheim or at emgs.com.

Disclaimer for forward-looking statements

This quarterly report includes and is based, inter alia, on forward-looking information and statements that are subject to risks and uncertainties that could cause actual results to differ. Such forward-looking information and statements are based on current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for EMGS ASA and its subsidiaries. These expectations, estimates and projections are generally identifiable by statements containing words such as "expects", "believes", "estimates" or similar expressions. Important factors that could cause actual results to differ materially from those expectations include, among others, economic and market conditions in the geographic areas and industries that are or will be major markets for the EMGS's businesses, oil prices, market acceptance of new products and services, changes in governmental regulations, interest rates, fluctuations in currency exchange rates and such other factors as may be discussed from time to time. Although EMGS ASA believes that its expectations and the information in this report were based upon reasonable assumptions at the time when they were made, it can give no assurance that those expectations will be achieved or that the actual results will be as set out in this report. EMGS ASA nor any other company within the EMGS group is making any representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the information in the report, and neither EMGS ASA, any other company within the EMGS group nor any of their directors, officers or employees will have any liability to you or any other persons resulting from your use of the information in the report. EMGS ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in the report.

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EMGS, the marine EM market leader, uses its proprietary electromagnetic (EM) technology to support oil and gas companies in their search for offshore hydrocarbons. EMGS supports each stage in the workflow, from survey design and data acquisition to processing and interpretation. The company's services enable integration of EM data with seismic and other geophysical and geological information to give explorationists a clearer and more complete understanding of the subsurface. This improves exploration efficiency, and reduces risks and the finding costs per barrel.

EMGS has conducted more than 650 surveys to improve drilling success rates across the world's mature and frontier offshore basins. The company operates on a worldwide basis with main offices in Trondheim, Oslo and Stavanger, Norway; Houston, USA; and Kuala Lumpur, Malaysia.

Please visit www.emgs.com for the latest news and in-depth information about EMGS and EM technology.

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