EMGS ANNUAL REPORT 2010

emgs

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

EMGS has conducted more than 500 surveys to improve drilling success rates across the world's mature and frontier offshore basins. The company operates on a worldwide basis with main offices in Trondheim and Stavanger, Norway; Houston, USA; and Kuala Lumpur, Malaysia. Please visit www.emgs.com for more information.

THIS SECTION

DIRECTORS REPORT

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

The integration of EM methods into exploration workflows provides oil and gas companies with a far more efficient de-risking tool than using traditional exploration techniques alone. The technology is not a replacement for seismic method. It is rather complementary, as it provides oil companies with more information about the subsurface prior to drilling. Integration of EM data into the exploration workflow reduces exploration risk and costs.

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

EMGS has conducted over 500 surveys to reduce exploration risk and improve drilling success rates across the world's mature and frontier basins - in water depths ranging from approximately 30 to 3500 meters - for more than 50 clients.

The Company had three vessels on time charter at the end of 2010, and returned a fourth to the owner at the expiration of the charter in October 2010. Two of the vessels are purpose-built and offer unparalleled capacity and operational efficiency, whilst maintaining the highest safety and environmental standards. In addition, a mobile acquisition set can be deployed from a multipurpose vessel, giving EMGS the flexibility to offer 3D EM surveys in areas away from the regional campaigns to which our purpose-built fleet is often committed.

EMGS coordinates its activities from its headquarters in Trondheim (Norway) and has business centres in Houston (USA), Stavanger (Norway) and Kuala Lumpur (Malaysia). The Group also has offices in Oslo (Norway), Rio de Janeiro (Brazil), Mumbai (India) and Villahermosa (Mexico). EM surveys have been conducted under a wide variety of operating conditions and in virtually every major basin around the world.

The Company introduced 3D products and shallow water products in 2008 and the anisotropic inversion of EM data in 2009. Throughout 2010, EMGS has focused on delivering processed and inverted EM data to its customers, from both multi-client and proprietary contracts.

The year 2010 was the beginning of a new era in the Company, from both the operating and contract coverage viewpoint. The fleet and the workforce were appropriate to the contract coverage.

Significant events during the year included entering into the largest EM contract ever in July 2010, with a proprietary contract in Mexico, and commencing a joint-industry equipment-development project, which aims to expand the application and further improve the quality of EM data. In addition, the Company undertook a series of contracts with major and national oil companies throughout the year.

The Group generated gross revenues of approximately United States dollars (“USD”) 75.4 million in 2010, an increase of 27.9% over 2009, while the operating expenses were reduced by 18.1% to USD 100.3 million, which resulted in a negative EBITDA of approximately USD 2.4 million (2009: USD -39.6 million). This represents a significant improvement compared with the previous two years.

In 2010, EMGS experienced an increase in demand for EM services. The fleet and the workforce were better balanced to the demand than in 2009. The reductions in fleet and workforce during 2009 reduced the expenses in 2010.

EMGS maintains proprietary rights over its equipment, technology and software. This enables the Company to provide superior end-to-end services for its customers, build the EM market and develop its EM technology and applications. This position is the result of intensive research and development activity, and the Company intends to invest further in product development.

Three of the Company's method patents have been challenged in courts in the Netherlands and the United Kingdom ("UK"). In July 2010, the Company received the decision that the UK appeal court found the three challenged EMGS patents to be valid and enforceable in the UK. The Company's views prevailed over Schlumberger Holding Ltd (who initiated the legal process in the UK). Schlumberger Holding Ltd has appealed this decision. The Supreme Court hearing is likely to take place in November 2011. In February 2010, in the first instance of the proceedings launched by Offshore Hydrocarbon Mapping plc in the European Patent Office, one of the Company's European method patents was not upheld. The decision has been appealed, but no date has been set for the appeal hearing.

The patents also remain valid and enforceable in the Netherlands after the court stayed the proceedings until a final decision is received from the European Patent Office.

In April 2009, EMGS and Fugro N.V. ("Fugro"), a world-leading geotechnical, survey and geoscience company, entered into a cooperation agreement which is effective through 2011. The Company was active in its cooperation with Fugro throughout 2010. The cooperation resulted in one joint proprietary contract, one multi-client project and common development efforts in 2010.

PUBLIC LISTING AND CAPITAL INCREASE

EMGS's stock was listed on the Oslo Stock Exchange throughout 2010. The listing took place on 30 March 2007. In 2010, the Company made two equity offerings; the first of approximately USD 3.0 million in January 2010 (as a subsequent offering) and the second in July 2010 of approximately USD 30 million.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

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

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

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

EMGS's social responsibility guidelines are based on internal policies and an anti-corruption compliance programme which is being further developed in 2011.

RESEARCH AND DEVELOPMENT

Research and development ("R&D") is part of the Company's foundation. EMGS is fully committed to improving its products and developing new applications, which will, in turn, provide its customers with further improvements in EM results. However, as part of the 2008 - 2010 cost saving project, the Company has reduced capital expenditure on R&D projects with long-term horizons. The joint-industry project launched in 2010 will contribute to the R&D effort.

In 2010, EMGS's R&D expenditure was USD 2.8 million (2009: USD 2.6 million), of which most relates to personell expenses. The Company capitalises certain R&D expenses in accordance with International Financial Reporting Standards.

GOING CONCERN

As of 31 December 2010 the carrying value of equity was USD 2.2 million, significantly impacted by the fair value adjustment of the NOK 150 million convertible bond of USD 30.7 million. Due to breach of a covenant in the bond agreement to have an equity ratio of at least 25%, the NOK 150 million and USD 5 million convertible bonds of USD 57.1 million are classified as current liabilities, resulting in current liabilities of USD 86.7 million compared to current assets of USD 66.6 million. The USD 5 million bond was converted to shares and reclassified to equity during the first quarter 2011. Based on the current share price of the Company, the NOK 150 million convertible bond is expected to be converted to equity.

In accordance with the Norwegian Accounting Act § 3-3a, EMGS confirms that the financial statements have been prepared on a "going concern" basis. The Board confirms that this basis, which takes account of income forecasts for the year 2011 and the Group's long-term strategic forecasts, is valid. The forecast for the year 2011 is based on a strengthened contract situation compared to previous years.

FACTORS AFFECTING RESULTS OF OPERATIONS

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

Demand for EM services

The overall demand for EMGS's services is dependent, in part, on offshore exploration and development trends, as well as the amount of spending by oil and gas companies. In recent years, the Company's customers and large oil and gas consuming nations have perceived a growing and potentially lasting imbalance between the supply of and demand for hydrocarbons. The demand for EM services increased in 2010 after two challenging years. The Company is now experiencing significant interest in its EM products from oil companies.

Revenues

A majority of contracts entered into during the last three fiscal years were for total service solutions, which were in part driven by the increasing level of recurring customers.

Fleet status and utilisation

EMGS has operated two vessels for the whole of 2010, and a third vessel with a mobile acquisition set for 5.1 months. The average number of vessels operated for EM surveys in 2010 was 2.4. The vessels which were de-rigged for EM surveys were sublet to the extent possible throughout the year. The average sublet time was approximately 49%. However, the rates received did not fully cover the time-charter hire paid by the Company to the owners. The de-rigged vessels were redelivered to their owners on the expiry of the time charters. One vessel was returned in March 2010, a second in October 2010 and the last in January 2011. Currently, the Company has two long-term time charters for its purpose-built 3D EM vessels.

EMGS's ability to optimise the performance of its vessels, through maximising commercial utilisation and minimising unpaid activities, are key factors for the Group's longer term operating performance. Technical downtime, steaming time between surveys and unpaid standby time, all negatively impact on the Group's operating results. In 2010, the Company had an average operating time for the vessels of 73%.

Seasonality

The Group generally experiences lower levels of revenues in the first and fourth quarters of each year compared with the second and third quarter - partly due to the effects of weather conditions in the northern hemisphere. 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. In 2010, the revenues steadily increased quarter on quarter from a disappointing first quarter. Production in the fourth quarter was affected by operational challenges related to weather and deep-water operation.

Foreign currency effects
Although the Group conducts operations in several countries around the world, historically, nearly all of its business has been transacted through EMGS, the parent company. However, as a consequence of the requirements in the jurisdictions in which the Group has contracted throughout 2010, more contracts are being entered into by wholly owned subsidiaries of the parent company. The Company sees this trend continuing into 2011. As a consequence of these changes, management has assessed the functional currency of the parent company to be Norwegian kroner ("NOK") in 2011, a change from USD in previous periods.

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 final payment for the transaction. The Group records such gains or losses in the financial income and expenses line item of its consolidated income statement.

RESULTS OF OPERATIONS
Below, the year ending 31 December 2010 is compared with the year ending 31 December 2009.

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

Operating revenue
EMGS recorded revenues of USD 75.4 million for the year ending 31 December 2010 (2009: USD 59.0 million), an increase of 27.9 %.

Total operating expenses
Operating expenses decreased by 18.1% to USD 100.3 million for the year ending 31 December 2010 (2009: USD 122.4 million). This decrease is mainly due to a reduction in the fleet and capitalisation of multi-client costs.

Charter hire, fuel and crew expenses ("charter costs")
Charter costs were reduced to USD 32.9 million in 2010 (2009: USD 55.2 million). The change is mainly due to the reduction in the number of vessels and the capitalisation of multi-client costs. The capitalisation of multi-client costs reduced the charter costs by USD 11.3 million in 2010. In 2009, there was no such capitalisation of costs. The book value of the multi-client library was USD 5.9 million at the end of 2010.

Employee expenses
Employee expenses in 2010 amounted to USD 30.5 million (2009: USD 30.2 million). The number of employees at the end of 2010 was 187.

Depreciation and amortisation
Depreciation and amortisation decreased to USD 18.4 million in 2010 (2009: USD 23.7 million). The reduction in depreciation and amortisation is a direct consequence of the lower investment activity.

Multi-client amortisation
Amortisation of the multi-client library was USD 4.1 million in 2010 and there was no amortisation in 2009 as the capitalised amount in 2008 was fully written off that same year.

Other operating expenses
Other operating expenses in 2010 amounted to USD 14.5 million (2009: USD 13.3 million). The increase was mainly due to higher operational activity.

Financial income and expenses
Financial items for the year 2010 amounted to a negative USD 31.4 million (2009: USD -7.2 million). The main reason for the change is that the convertible loan agreement with Fugro resulted in increase in the fair value of the conversion rights. Over the year the effect was negative USD 23.8 million owing to the substantial increase in

the Company's share price and because the company had USD as functional currency in 2010. The USD 5 million convertible bond was converted into shares in March 2011.

Share of profit of joint venture
For the full year 2010, the share of profit of joint venture was nil, compared with negative USD 10.7 million in 2009.

The joint venture in KJT Inc ("KJT") was owned 50% each by the Company and RXT ASA, but, as a consequence of a private placement to employees, the ownership was reduced to 40% in 2009. KJT has experienced reduced demand for their services and liquidity problems owing to customers' late payments. EMGS has re-evaluated the commercial value of the IP portfolio of KJT based on the current market conditions, and this resulted in an impairment of the value of KJT in 2009.

In February 2011, EMGS sold its shares in KJT, but continues to have a perpetual license agreement for the KJT patent portfolio.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations, investing and financing activities
Net cash provided by operating activities was negative USD 20.4 million for 2010 (2009: USD -35.4 million).

Net cash applied in investing activities for 2010 was USD 13.9 million. The principal components of these expenditures were related to the multi-client library.

Net cash provided by financing activities for 2010 totalled USD 44.3 million. The most important components are (i) the bond loan raising USD 20 million in July 2010 and (ii) the private placement amounting to USD 30 million raised in the private placement in July 2010. The net cash from financing activities in 2009 was USD 44.2 million including an equity issue of USD 22.3 million.

Liquidity Requirements and Financing Facilities
The Group's liquidity needs fluctuate from quarter to quarter depending, principally, on the seasonal trends and its need to commission additional sets of equipment.The timing of which is typically aligned with new vessel delivery. EMGS's cash flow budget indicates that the Group will meet its liquidity requirements for 2011.

EMGS has two convertible loans, totalling USD 57.1 million and a bond loan of USD 20.3 million as of 31 December 2010. In addition, EMGS has financial lease obligations of USD 4.7 million.

FINANCIAL RISK
The Company is subject to currency transaction exposure when it generates revenues in currencies other than those in which it incurs expenses. EMGS incurs approximately 45% of its expenses in USD, including the majority of its current vessel, fuel and operational crew costs. Approximately 45% of its expenses are in Norwegian kroner, including the salaries of staff employed in Norway and office rental. The effects of this operational transaction exposure are recorded in the financial income and expenses line item of the Company's consolidated income statement. The Company aims to hedge non-USD currency transaction risks by seeking to match revenues and costs in the same currency wherever possible. EMGS currently has no financial hedging arrangements in place. In circumstances where it cannot effectively match its revenues and costs, it may in the future seek to hedge such exposure.

The Company has limited exposure to interest rate risk as the two convertible loans have fixed interest rates, and the interest risk exposure as a result of the bond loan has limited effect on the total financial risk.

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

The bond loans all have financial covenants. At the end of 2010, the Group was in breach of one financial covenant, by having a lower equity ratio than 25%, but the lenders have given a waiver where the fair value adjustment of the NOK 150 million bond is not included in the calculation of the equity ratio. In March 2011, the USD 5 million convertible loan was converted into equity. The Company has paid the interest on time.

The Group considers that it has no significant concentration of credit risk. Its clients are major international, national and independent oil and gas companies, mostly with impeccable credit standings and histories. However, occasionally, a smaller oil and gas company could be on the client list and, in these cases, extraordinary caution is conducted in the credit evaluation. In 2010, EMGS did not experience any significant defaults in payments from customers.

THE WORKING ENVIRONMENT AND THE EMPLOYEES

As at 31 December 2010, the Group had 187 employees, 29 of whom are employed at its regional office in Houston, USA and 12 of whom are employed at the regional office in Kuala Lumpur, Malaysia. The Board believes that the Group's general working environment is good, and it is a prioritised goal for the management team to maintain this status. There was close contact between management and the employee representatives throughout 2010. Management reported that the reorganisation and the improved contract coverage in 2010 contributed to improving the working environment in 2010.

The internal educational and training programme, "the EMGS Training Center", continues to provide internal and external educational programmes. As a large number of our employees are involved in offshore operations, a dedicated health, safety and environment ("HSE") training programme has been put in place to ensure the safest possible working environment. The Company sponsors and promotes various social and sporting activities as management firmly believes these to be beneficial in securing a good long-term working environment. The percentage of absences due to illness in 2010 was 1.2% (2009: 2.0%). The Company had no incidents that resulted in restricted work cases and no lost time injury during 2010. The Company has a good record related to quality, health, security and environment issues.

EQUAL OPPORTUNITIES AND DISCRIMINATION STATEMENT

EMGS has defined and implemented guidelines to protect against gender discrimination. At the end of 2010, 22% (2009: 25%) of the Group's 187 employees were female. 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 for the average work force. This can, however, be explained by high degree of representation of males at the management level and among the technical professionals.

The Discrimination Act's objective is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin colour, language, religion and faith. The Group is actively working in a systematic and determined way to encourage the Act's purpose within its business. The activities include recruiting, salary, working conditions, promotion, development opportunities and protection against harassment. These are issues of importance for EMGS's working environment as the Group has employees from more than 20 nations with a multitude of languages, cultures, ethnicities, religions and faiths. The Group uses English as the company language to facilitate that all employees can take part in the communication.

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

EXTERNAL ENVIRONMENT

EMGS's offshore activity may in some instances lead to spills or other unwanted effects on the environment. The potential effect is, however, similar in nature to what could be expected in the general maritime transport sector. The Company actively seeks to reduce the risks associated with its operations and has "HSE" policies and routines in place to meet this goal. Furthermore, efforts towards increasing the general awareness of HSE issues across the Group have been implemented. One example of this is the inclusion of HSE targets in the Company's Key Performance Indicators. No spills at sea were reported in 2010.

COVERAGE OF LOSS

The Board of Directors propose that the Net loss of EMGS, the parent company, shall be attributed to:

Other equity	KNOK	-	203 942
Net loss coveraged	KNOK	-	203 942

The Company does not have distributable equity as of 31 December 2010.

OUTLOOK

EMGS starts the year 2011 with the highest backlog in the history of the Company. The fleet is fully booked for the first 8 months of the year, and one vessel will be operating one contract in Mexico throughout 2011.

Signs of increased exploration and production spending in 2011, along with a growing opportunity pipeline, suggests that positive net income for 2011 is within reach.

Customer spending patterns do, however, remain challenging to predict, and the future risks for EMGS will still largely be dictated by the ability to capitalise on encouraging movements in negotiations with targeted customers.

Oslo, 23 March 2011

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen

Jeffrey Alan Harris

Grethe Høiland

Friedrich Roth

Cecilie Arentz

Roar Bekker
CEO

CORPORATE GOVERNANCE

The main corporate governance objective of Electromagnetic Geoservices ASA ("EMGS" or the "Company") is to have systems for communication, monitoring, responsibility and incentives that create the greatest value over time for shareholders, clients and employees. The objective of EMGS is to comply with all relevant laws and regulations affecting the Company and its business activities, as well as the Norwegian Code of Practice for Corporate Governance ("Code of Practice"). The Company's Board of Directors has adopted the Code of Practice 21 October 2010. The Company may deviate from the principles of the Code of Practice if required for special purposes. In the following it is set out how the Code of Practice is accommodated through the financial year 2010 for each section. Any deviations from the Code of Practice are addressed in relation to the relevant section.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

Governance is in focus at all levels of the organisation, and is reflected in EMGS's corporate documents, its articles of association, policies and its business strategy. The Company has high standards for ethics and corporate social responsibility and has established a set of policies, including, but not limited to policies on (i) ethics, (ii) health, safety and environment, (iii) drug and alcohol, (iv) quality, (v) smoking and (vi) environment. The company has adapted an anti-corruption compliance program.

2. BUSINESS

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

"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 article of associate provide a definition of the scope of activity which ensure the shareholder's control with the business and its risk profile without interfering with the roles of the board and the management.

3. EQUITY AND DIVIDENDS

As of 31 December 2010 the Company's equity is deemed to be satisfactory by the Board of Directors in connection with its objective, strategy and risk profile. The Company's equity position is subject to continuing evaluation to ensure that it is in correspondence with applicable regulations and the articles of association. The Company aims to create value for its shareholders over the long-term through the increase of the share price in addition to dividends. At present the Company does not intend to pay dividends.

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

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

The EMGS shares are all of the same class and are equal in all respects. Equal treatment of shareholders is a main focus area in EMGS. Pursuant to the Norwegian Public Limited Liability Companies Act, existing shareholders have pre-emption rights in connection with share capital increases; however, this right can be waived. Any decision to waive the pre-emption right must be justified by the Board of Directors. Where the Board of Directors resolves to carry out an increase in the share capital and waive the pre-emption rights of the existing shareholders on the basis of a mandate granted to the board, an explanation will normally be publicly disclosed in a stock exchange announcement issued in connection with the increase of the capital. Any transactions the Company carries out in its own shares shall, as a main rule, be carried out on the Oslo Stock Exchange.

EMGS's practice is to ask the general assembly to consider mandates for the Board of Directors for specific issues in order to secure information and equal treatment of shareholders.

In the event of any material transaction between the Company and its shareholders, a shareholder's parent company, members of the Board of Directors, members of the executive personnel or close associates of any such parties, the Board of Directors shall, as a main rule, arrange for a valuation to be obtained from an independent third party.

EMGS has implemented procedures for the Board of Directors, the board committees and the executive personnel to ensure that any conflict of interest connected to agreements that are entered into by the Company is reported to the Board of Directors.

5. FREELY NEGOTIABLE SHARES

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

6. GENERAL MEETINGS

EMGS encourages all shareholders to participate in general meetings. The Board of Directors endeavours to organise the general meeting to ensure that as many shareholders as possible may exercise their rights by participating in general meetings of the Company, and that general meetings are an effective forum for the views of shareholders and the Board of Directors.

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

Shareholders that are unable to attend the general meetings may be represented and exercise their voting rights through proxy, and a person who will be available to vote on behalf of shareholders as their proxy will be nominated. Proxy forms will allow the proxy-holder to cast votes for each item separately. A final deadline for shareholders to give notice of their intention to attend the meeting or vote by proxy will be set in the notice for the meeting.

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

The Code of Practice stipulates that the Board of Directors should have arrangements to ensure an independent Chairman for the general meeting. The Company evaluated the recommendation but decided that it was in the interest of the Company and the shareholders that the general meeting is chaired by the Chairman.

7. NOMINATION COMMITTEE

The Code of Practice recommends that a nomination committee is established and that the general meeting stipulates guidelines for the duties of that committee. On account of the current size of the Company and its ownership structure, EMGS does not have a nomination committee. It is the policy of the Board of Directors to review periodically the appropriateness of establishing such a committee.

8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

In accordance with the articles of association, the Board of Directors shall consist of 5 to 10 board members. At present there are 7 members of the Board of Directors, including 2 employee representatives. At least three board members are independent of major shareholders and the executive personnel. There are four men and three women serving as board members. Members of the Board of Directors are elected by the shareholders, and any proposals on such board members are made with the view to ensure that the Board of Directors can attend to the shareholders common interest, and the Company's need for competence, capacity and diversity. It is taken into consideration when proposing and electing board members that the board shall function well as a collegial body. The Chairman of the board shall be elected by the general meeting. Board members are encouraged to own shares in the Company.

The majority of the board members are independent of the Company's executive personnel, substantial business associations and major shareholders. The Chairman of the Board of Directors performs services for the Company beyond the work directly related to his directorship, and consequently might not be considered independent of the executive personnel. The other shareholder elected board members are all independent of the executive personnel and significant business relations.

One of the shareholder's elected board members are employed by, and therefore connected to, the Company's largest shareholder.

The Code of Practice recommends that board members of a company should serve for a period not exceeding two years. The board of EMGS does not comply with this recommendation because continuity in the board composition is believed to be of benefit to the Company. The board undertakes to keep its policy in this respect under review.

9. THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the Company's business and supervision of the executive personnel, including the responsibility to implement control systems and to ensure that the Company is operated in accordance with applicable legislation and the Code of Practice. The Board of Directors annually prepares a plan for its work, focusing on goals, strategy and implementation, in addition to instructions from the Board of Directors to the executive personnel.

The Board of Directors' working methods and interaction are subject to annual revision. In this respect, the Board of Directors evaluates its effort in relation to corporate governance. The Board of Directors has not regarded it necessary to engage external consultants to assess the evaluation of its own work. In order to ensure a more independent consideration of matters of a material character in which the Chairman of the Board of Directors is, or has been, personally involved, such matters will be chaired by some other member of the Board of Directors.

The Board of Directors has established and stipulated instructions for an audit committee and a remuneration committee to assist the Board of Directors. The committees of the Company comprise of board members.

According to the Code of Practice, the Board of Directors should elect a Deputy Chairman. The Company has not considered it necessary to appoint a Deputy Chairman. The Board of Directors re-evaluates this on a yearly basis.

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors oversees that the Company has a sound risk management and internal control system that are appropriate in relation to EMGS's activities. The risk management and internal control systems in EMGS are based on the Company's corporate values, ethics guidelines and standards for corporate social responsibility. The

Board of Directors annually reviews the Company's internal controls and the main areas of risks. A description of the Company's internal control and risk assessment systems for financial reporting is included in the annual report.

11. REMUNERATION TO THE BOARD OF DIRECTORS

The ordinary general meeting decides the remuneration paid to members of the Board of Directors annually. The remuneration of the Board of Directors shall reflect the board's responsibility, expertise, time commitment and complexity of the Company's activities. The Code of Practice recommends that the remuneration of the Board of Directors should not be linked to the Company's performance and, further, that the Company should not grant options to members of its Board of Directors. The Company has not granted options to members of the Board of Directors after its shares were listed on the Oslo Stock Exchange. The options held by the Chairman were granted in 2004 and 2006 (prior to the listing of the Company in March 2007), and will expire in 2 July 2011(205,000 at NOK 10.95) and 1 January 2014 (100,000 at NOK 5,77). In 2010, the annual general assembly resolved to offer all option holders in the Company to cancel unvested options with a strike price of NOK 20 and above against repricing of vested option to NOK 5.77. As a consequence, the Chairman accepted to cancel 50,000 options (at NOK 26) against having 100,000 options repriced at NOK 5.77 (from NOK 26). Cecilie Arentz (5,000 options) and Friedrich Roth (30,000 options) both received options as employees in the Company, not as board members.

The Chairman of the board has an agreement with the Company for services performed beyond the work directly related to his directorship, which has been approved by the general meeting. The remuneration set out in this agreement covers his services related to his directorship and all other services performed for the Company. Except for the Chairman, none of the shareholder elected board members are engaged by the Company apart from the duty as board members.

Bjarte Bruheim	USD	554 000
Jeffrey Harris	USD	0
Christopher Wright	USD	18 333 (*)
Berit Svendsen	USD	30 000
Grethe Høiland	USD	30 000
Stig Eide Sivertsen	USD	21 666 (*)

(*) Christopher Wright served until the Annual General Assembly in June 2010, when he resigned and Stig Eide Sivertsen was elected.

Berit Svendsen received an additional USD 10 000 for work in the compensation committee in 2010. Christoper Wright received an additional USD 4 583 for the work for the compensation committee until June 2010. Stig Eide Sivertsen received an additional USD 4 583 for his work as chairman of the audit committee from June 2010.

Bjarte Bruheim also served on the audit committee, but does not receive compensation for this. Jeffrey Harris is appointed as board member by the Warburg Pincus fonds and according to their internal instructions, he does not receive any compensation for his work for the Company.

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

See the annual report, in particular note 6 and 14 regarding remuneration and shares owned by board members.

12. REMUNERATION OF THE EXECUTIVE PERSONNEL

The Board of Directors determines salary and other remuneration systems for key personnel of the management pursuant to the provisions of the Norwegian Public Limited Liability Companies Act. The Chief Executive Officer's employment conditions and remuneration are determined by the Board of Directors and are presented to the ordinary general meeting. The Board of Directors carries out a thorough evaluation of salary and other remuneration to the Chief Executive Officer on an annual basis. Roar Bekker served as Chief Executive Officer throughout the year. The remuneration to the Chief Executive Officer is stated in note number 6 in the financial statement of the Company.

The guidelines of the remuneration system for the executive personnel is determined by the Board of Directors and is presented to the general meeting through a declaration on principles for management remuneration required by law.

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

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

13. INFORMATION AND COMMUNICATIONS

The Company makes public quarterly and annual reports pursuant to the stock exchange regulations. The Board of Directors presents information to the shareholders and the public in a correct, complete and timely manner and such information are normally published on the Company's web page at the same time the information is distributed to the shareholders. The Company's financial calendar is published on EMGS's web page and through the Oslo Stock Exchange's information service.

The Board of Directors treats all shareholders equal with regards to information from the Company, unless otherwise required on the basis of special considerations. It is considered as material to keep shareholders and investors informed about the Company's progress and its economic and financial status.

Open investor presentations are held in connection with the Company's annual and quarterly reports. Presentation material is made public no later than simultaneously with the commencement of the presentation. The presentations are simultaneously broadcasted over the internet. The Company provides information about its major value drivers and risk factors in the reports.

In addition to the dialog between the shareholders in the general meeting, the Board of Directors aspires to arrange for contact with shareholders other than through general meetings. This takes place through the Chairman of the board, the Chief Executive Officer and/or the Chief Financial Officer and is subject to guidelines laid down by the Board of Directors.

The Company has a policy stating who is entitled to speak on behalf of the Company on various subjects, in particular who should communicate with the media, investors and investment bankers.

14. TAKE-OVERS

The Board of Directors endorses the recommendation of the Code of Practice for corporate governance and take-over bids. The Articles of Association of EMGS does not contain any restrictions, limitations or defense mechanisms on acquiring the Company's shares.

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

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

If an offer is made for the shares of EMGS, the Board of Directors will make a recommendation on whether the shareholders should or should not accept the offer, and will normally arrange a valuation from an independent expert.

15. AUDITOR

The auditor annually presents a plan covering the main features for carrying out the audit. The auditor participates in meetings of the Board of Directors that deal with the annual accounts and reviews any material changes in the Company's accounting principles, as well as other circumstances of importance to estimate accounting figures and any disagreement between the auditor and the executive personnel of the Company.

The auditor annually reviews the Company's internal control procedures together with the Board of Directors, including identified weaknesses and proposals for improvements. The Board of Directors holds a meeting with the auditor at least once a year at where neither the Chief Executive Officer nor the Chief Financial Officer is present.

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

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

DETERMINATION OF SALARY STATEMENT

The Board of Directors of Electromagnetic Geoservices ASA ("EMGS" or the "Company") has prepared this declaration in accordance with the Norwegian Public Limited Liability Companies Act section 6-16a. This declaration shall be presented to the Annual General Meeting of EMGS to be held on 22 June 2011 in accordance with the Norwegian Public Limited Liability Companies Act section 5-6 subsection three.

1. GUIDELINES FOR DETERMINATION OF MANAGEMENT REMUNERATION

1.1 Main principles for determination of management remuneration for the financial year 2011
The goal of the Company's policy on salary and compensation ("Remuneration") for executive management ("Management") is to recruit and retain world-class, skilled leaders who have the capacity to develop, manage and lead EMGS. The Remuneration shall consist of non-variable compensation ("Basic Salary") and variable forms of compensation such as bonuses, options and special payments ("Additional Compensation").

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

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

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

A part of the total remuneration may also be in the form of shares and options in the Company. In the Annual General Meeting to be held in 2011, it is proposed to be approved that the Board is authorized to issue a maximum of 10,000,000 options over three years under the employee option program to employees (not only management), and that the maximum outstanding options shall not at any time exceed 7.5% of the registered number of shares in the Company. The total number of outstanding options as of 31 December 2010 was 7,196,200 (cf note 14).

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

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

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

1.2 Determination of Remuneration

Basis Salary and Additional Compensation

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

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

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

Additional Compensation

a) Benefits in kind

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

b) The bonus programme

The Company has a bonus programme for all employees, which has been established by the Board of Directors. The current bonus programme was adopted by the Board of Directors in 2009 and is reviewed annually. The Board of Directors intends to continue the programme through 2011 and until the Annual General Meeting for 2011 in 2012, although adjustments may be made.

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

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

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

d) Pension plans

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

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

e) Severance schemes

The CEO has a Severance Agreement which pays 18 months salary and benefits during the notice period if his employment is terminated. Other managers have Severance Agreements which cover the payment of 12 months salary and benefits during the notice period if his/her employment is terminated. The severance scheme is structured to ensure that members of the executive management do not leave the Company in order to start working immediately for a competitor.

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

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

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

2. EXECUTIVE MANAGEMENT WAGES IN SUBSIDIARIES OF EMGS

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

3. REVIEW OF THE EXECUTIVE MANAGEMENT REMUNERATION POLICY THAT HAS BEEN CARRIED OUT IN THE FINANCIAL YEAR 2010

The remuneration policies set out in the declaration on determination of salary and other compensation to the CEO and other executive management for 2010 were followed in all respects for the year 2010. No member of the executive management received bonus above 40% of the annual Basic Salary.

The performance-related bonus to the executive management in 2009 is paid out in 2011, cf. note 6 to the annual financial statement 2010.

4. REVIEW OF THE EFFECTS FOR THE COMPANY AND ITS SHAREHOLDERS OF AGREEMENTS ON REMUNERATION ENTERED INTO OR AMENDED IN THE FINANCIAL YEAR 2010

The Company entered into an agreement with the Chairman, Bjarte Bruheim which was approved by the Extraordinary General Assembly on 27 November 2007. This agreement is deemed to have been beneficial for the Company. The agreement with the Executive Chairman was amended in 2010 to include a severance right of 12 months earnings in line with the other managers in the Company.

Oslo 23 March 2011

Bjarte Bruheim

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

THIS SECTION

ELECTROMAGNETIC GEOSERVICES GROUP

CONSOLIDATED INCOME STATEMENT

Amounts in USD 1 000	Note	2010	2009
Operating revenues			
Contract sales	5	**64 073**	39 593
Multi-client sales	5, 15	**11 335**	19 385
Total operating revenues		**75 408**	**58 978**
Operating expenses			
Charter hire, fuel and crew expenses	6	**32 856**	55 211
Employee expenses	7	**30 451**	30 194
Depreciation and ordinary amortisation	15, 16	**18 431**	23 707
Multi-client amortisation	15	**4 083**	-
Other operating expenses	8, 9	**14 456**	13 308
Total operating expenses		**100 277**	**122 420**
Operating profit (loss)		**-24 869**	**-63 442**
Share of profit of joint venture	18	**-**	-10 746
Financial income and expenses			
Interest income	10	**201**	375
Interest expenses	10	**-7 587**	-4 517
Change in fair value of conversion rights	10, 23	**-23 754**	1 212
Net foreign currency income/(loss)	10	**-267**	-4 286
Net financial items		**-31 407**	**-7 217**
Loss before income tax		**-56 276**	**-81 404**
Income tax expenses	11	**-1 068**	-109
Loss for the year		**-55 208**	**-81 295**
Basic loss per share (result for the year/shares) in USD	31	**-0.40**	**-0.87**
Diluted loss per share (EPS) in USD	31	**-0.40**	**-0.87**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Loss for the year		**-55 208**	**-81 295**
Exchange differences on translation of foreign operations		**46**	8
Total comprehensive income/(loss) for the year		**-55 162**	**-81 287**

CONSOLIDATED BALANCE SHEET

Amounts in USD 1 000	Note	2010	2009
ASSETS			
Non-current assets			
Intangible assets	15	**7 827**	2 862
Property, plant and equipment	16	**23 104**	32 117
Assets under construction	17	**9 085**	10 533
Interest in joint venture	18	**3 015**	3 015
Restricted cash	21	**7 326**	903
Total non-current assets		**50 357**	**49 430**
Current assets			
Spare parts, fuel, anchors and batteries	19	**9 293**	8 147
Trade receivables	20	**20 640**	9 930
Other receivables	17	**4 458**	6 924
Cash and cash equivalents	21	**21 340**	27 232
Restricted cash	21	**10 884**	1 443
Total current assets		**66 615**	**53 676**
Total assets		**116 972**	**103 106**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital, share premium and other paid equity	13	**182 381**	149 739
Other reserves		**-172**	-218
Retained earnings		**-179 988**	-124 780
Total equity		**2 222**	**24 741**
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	22	**5 085**	5 462
Borrowings	23	**22 989**	4 263
Total non-current liabilities		**28 074**	9 725
Current liabilities			
Trade payables	24	**12 752**	14 570
Current tax liabilities	12	**948**	2 047
Provisions	25	**774**	6 718
Other short term liabilities	26	**12 980**	10 806
Borrowings	23	**59 223**	34 499
Total current liabilities		**86 677**	68 640
Total liabilities		**114 751**	78 365
Total equity and liabilities		**116 972**	103 106

CONSOLIDATED STATEMENT OF CASH FLOW

Amounts in USD 1 000	Note	2010	2009
Net cash flow from operating activities:			
Loss before income tax		**-56 276**	-81 404
Adjustments for:			
Depreciation and ordinary amortisation	15, 16	**18 431**	23 707
Multi-client amortisation	15	**4 083**	-
Profit on sale of fixed asset		**115**	-36
Share of net loss of joint venture		**-**	2 643
Non-cash portion of pension expenses		**-377**	1 070
Cost of share-based payments		**1 793**	1 185
Change in trade receivables		**-10 710**	3 993
Change in inventories		**-1 146**	1 392
Change in trade payables		**-1 818**	-4 944
Change in other working capital		**-4 194**	5 331
Taxes paid		**1 128**	-1 090
Withholding tax expenses		**-1 160**	410
Change of fair value of conversion rights		**23 754**	-616
Impairment of investment in joint venture		**-**	8 103
Amortisation of interest		**5 965**	4 861
Net cash flow from operating activities		**-20 412**	**-35 395**
Investing activities:			
Purchases of property, plant and equipment		**-3 347**	-6 309
Purchases of intangible assets		**-834**	-1 138
Proceeds from sales of assets		**286**	119
Investment in multi-client library		**-9 979**	-
Cash used in investing activities		**-13 874**	**-7 328**
Financial activities:			
Financial lease payments-principal		**-3 931**	-2 578
Proceeds from bonds		**20 000**	27 364
Proceeds from issuance of ordinary shares	13	**30 849**	22 264
Payment of interest on bonds		**-2 660**	-1 027
Payment of bank borrowings		**-**	-1 834
Cash provided by financial activities		**44 258**	**44 189**
Net increase in cash		**9 972**	**1 466**
Cash balance beginning of period		**29 578**	28 112
Cash balance end of period		**39 550**	29 578
Increase in cash		**9 972**	**1 466**
Interest paid		**-3 324**	-2 268
Interest received		**201**	375

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in USD 1 000	Note	Share capital, share premium and other paid-in equity	Other reserves	Retained earnings	Total equity
Balance at 1 January 2009		**244 961**	**-226**	**-162 319**	**82 416**
Currency translation differences		-	8	-	**8**
Loss for the year		-	-	-81 295	**-81 295**
Total comprehensive income		-	8	-81 295	**-81 287**
Proceeds from shares issued - private placement and options exercised	13	23 492	-	-	**23 492**
Transfer of share premium to retained earnings	13	-118 834	-	118 834	**-**
Equity component of convertible loan	13	163	-	-	**163**
Share-based payment	13	1 185	-	-	**1 185**
Cost of rights issue	13	-1 228	-	-	**-1 228**
Balance at 31 December 2009		**149 739**	**-218**	**-124 780**	**24 741**
Currency translation differences		-	46	-	**46**
Loss for the year		-	-	-55 208	**-55 208**
Total comprehensive income		-	46	-55 208	**-55 162**
Proceeds from shares issued - private placement and options exercised	13	33 564	-	-	**33 564**
Share-based payment	13	1 793	-	-	**1 793**
Cost of rights issue	13	-2 715	-	-	**-2 715**
Balance at 31 December 2010		**182 381**	**-172**	**-179 988**	**2 222**

NOTES

NOTE 1 — CORPORATE INFORMATION

Electromagnetic Geoservices ASA (EMGS/the Company) and its subsidiaries (together the Group) use EM, a patented electromagnetic survey method, to find hydrocarbons in offshore reservoirs. The Company's services help oil and gas companies to improve their exploration success rates. The Group has subsidiaries in Norway, Australia, Brazil, USA, Holland, Nigeria, Mexico and Malaysia.

The Company is a public limited liability company incorporated and domiciled in Norway whose shares are publicly traded. The address of its registered office is Stiklestadveien 1, 7041 Trondheim.

These consolidated financial statements have been approved for issue by the Board of Directors and the Chief Executive Officer on March 23, 2011.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2. Summary of significant accounting policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the periods presented would not be materially different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Basis for consolidation
The consolidated financial statements incorporate the financial statements of EMGS and entities controlled by EMGS (subsidiaries). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control normally exists when EMGS has more than 50% voting power through ownership or agreements.

The results of subsidiaries acquired or disposed during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

2.3 Interest in a joint venture
The Group has an interest in a joint venture which is a jointly controlled entity, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the equity method.

Under the equity method, the interest in a joint venture is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to interest in a joint venture is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of results of operation of the joint venture, including amortisation of excess values and impairment losses. At each reporting date the Group evaluates whether there are identifiable indications that the investment may be impaired. If there are such indications, the recoverable amount of the investment is estimated in order to determine the extent of the impairment loss (if any). Where there has been a change recognised directly in equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The equity method is used until the date on which the Group ceases to have joint control over the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

2.4 Foreign currency translations
(a) Functional and presentation currency
The financial statements of each entity within the Group reflect transactions recorded in the currency of the economic environment in which it operates (the functional currency).

The consolidated financial statements are presented in US Dollars (USD) which is the Company's functional currency and 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. EMGS operates in the oil service industry and USD is the currency that mainly influences sales prices for the Company's services. USD significantly influences the charter hire, material, and other costs of providing services. USD is therefore the functional currency of the Company. See Note 34 for change in the Company's functional currency after the reporting period.

(b) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the currency rate on the balance sheet date. All differences are recorded in profit and loss. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rates on the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates on the date when the fair value is determined.

(c) Group companies
The results and financial position of Group companies (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the rate of exchange ruling on the balance sheet date.

(ii) Revenues and expenses for each income statement presented are translated at average exchange rate for the period. However, if this average is not a reasonable approximation of the cumulative effect on the rates prevailing on the actual transaction dates, revenues and expenses are translated using the foreign exchange rates on the specific transaction date.

All resulting exchange differences are recognised in other comprehensive income.

2.5 Multi-client library

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

The Group amortises its multi-client library primarily based on the ratio between the cost of the surveys and the total forecasted sales for such surveys. Surveys are categorised into four amortisation categories with amortisation rates of 90%, 75%, 60% or 45% of sales amount. Classification of a project into a rate category is based on the ratio of its remaining net carrying value to its remaining sales estimate. Amortisation is recorded each time there has been a multi-client sale on surveys with a carrying value higher than zero.

The Group also applies minimum amortisation criteria for the library projects based on a three-year life. Under this policy, the book value of each survey is reduced to a specified percentage by each quarter end, based on the age of the survey. The calculation of minimum amortisation is recorded quarterly after amortisation for sales.

Sales of multi-client library data

a) Pre-funding agreements

Before an EM survey is completed, the Group secures funding from a group of customers. The advantages for pre-funding customers are generally the possibility to influence the project specifications, early access to acquired data, and discounted prices.

The Group recognises pre-funded revenue after 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.

b) Late sales

Customers are granted a license from the Group which entitles them to access a specific part of the multi-client data library. The license payment is fixed and is required when the license is granted. The late sale revenue is recognised when a valid licensing agreement is signed and the multi-client library data made accessible to the customer.

2.6 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. Revenue is measured at the fair value of the consideration received or receivable for services in the ordinary course of the Group's activities. Revenue is shown net of withholding and value-added taxes and after elimination of sales within the Group. Revenue is recognised as follows:

(a) Fixed Rate Contracts/Unit Price Contracts

Revenue from contracts (whether priced as Lump Sum, Day Rate or Unit Price) is recognised based on the percentage of completion method, measured by reference to the percentage of vessel operational hours incurred to date versus the total estimated vessel operational hours for the project. 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. (Vessel operational hours are the actual amount of time incurred/expected to be incurred in the productive acquisition of the electromagnetic data.)

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
See Note 2.5.

(c) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the carrying amount is reduced to the recoverable amount, calculated as the estimated future cash flows discounted using the original effective interest rate of the instrument. The discount continues to be unwound as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.7 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 other 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 - 5	years
Cluster **	5	years
Hardware equipment and furniture	3 - 5	years

* Machinery and equipment are mainly placed on board the vessel. Parts of the equipment are underwater during operation and have a short useful life.

** A cluster consists of IT equipment comprising a large amount of processors for doing advanced data processing.

The assets' residual values, useful lives and method of depreciation are reviewed at each balance sheet date and adjusted if appropriate. If an asset's carrying amount is greater than its estimated recoverable amount, the asset is immediately written down to the recoverable amount (Note 2.9).

2.8 Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either definite or indefinite.

Intangible assets with definite 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.

(a) Patents
Patents have a definite 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 years). Administrative costs associated with patents are expensed as incurred.

(b) Computer software
The cost of acquired computer software licenses is capitalised based on the expenses incurred to acquire and bring the specific software to use. These costs are amortised over the estimated useful life (3 years).

The costs of design of software interfaces, installing, testing, creating system and user documentation, defining user reports and data conversion are capitalised together with the software cost. These costs are directly related to developing the software application for the Group's use.

Costs associated with maintaining computer software are expensed as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the Group, which are expected to generate economic benefits in excess of cost (beyond one year) are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful life, not to exceed three years.

(c) Research and development costs
Research costs are expensed as incurred. Development expenditure on individual projects is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset, and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit (normally 3 years). During the period of development, the asset is tested for impairment annually.

Contributions from external customers and government grant in the development stage are recorded as a reduction of the intangible asset up to the amount that covers the cost price. Any surplus is recorded as revenues.

(d) Multi-client library
See Note 2.5.

2.9 Inventories
Inventories are valued at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The Group's inventory consists primarily of equipment components and parts, anchors, batteries, and fuel.

2.10 Impairment of non-financial assets
Intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are

grouped at the base levels for which separate cash inflows can be identified (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Non-financial assets, other than goodwill previously impaired, are reviewed at each reporting date for possible reversal of the previously recorded impairment. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior periods.

2.11 Financial assets

Financial assets within the scope of IAS 39 are classified as either; at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

The Group's financial assets include cash and short term deposits, trade and other receivables.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Loans and receivables are included in current assets, unless maturity is more than one year from the balance sheet date, in which case the asset would be classified as non-current.

2.12 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if;

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

ii) that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default of payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.13 Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

(a) Financial liabilities at amortised cost
Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the borrowing period using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(b) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Derivatives, including separated embedded derivatives are, classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities at fair value through profit or loss are carried in the income statement at fair value with changes in fair value recognised under financial items.

The conversion option on the convertible bond denominated in Norwegian Kroner is measured at fair value at each reporting date.

2.14 Derecognition of financial assets and liabilities

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

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

2.15 Income tax

(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 balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(b) Deferred income tax
Deferred income tax is provided for using the liability method on temporary differences arising between the tax

bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted on the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

2.16 Employee benefits

(a) Pension obligations
The Company operates a defined benefit plan. The scheme is funded through payments to an insurance company, determined by periodic actuarial calculations. The liability recognised in the balance sheet related to the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, plus adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates for the 10 years Government bond adjusted for duration approximately equal to the maturity to the related pension liability.

Accumulated effects of changes in estimates, changes in assumptions and deviations from actuarial assumptions (actuarial gains or losses) that are less than 10% of the higher of pension benefit obligations and pension plan assets at the beginning of the year are not recorded. When the accumulated effect is above 10%, the excess amount is recognised in the income statement over the estimated average remaining service period.

The net pension cost for the period is classified as an employee expense.

(b) Share-based compensation
The Group operates an equity-settled, share-based compensation plan. The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuation expert using an appropriate pricing model, further details are given in Note 14.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. When options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Social security tax on share-based compensation is recorded as a liability and recognised over the estimated option period. The social security tax is calculated using the appropriate tax rate on the difference between market price and the exercise price on the measurement date.

(c) Bonus plans
The Group recognises a provision for bonus expenses where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Leases
The determination whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement on inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

(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 property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

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

2.18 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. 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.

2.19 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.

2.20 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 2010:

Improvements to IFRSs
In April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to the accounting policies but did not have any impact on the financial position or performance of the Group.

IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as cash flow from operating activities. The amendment has no impact on the Group as the cash flow from operating activities only includes expenditure that results in recognising an asset.

IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group.

2.21 Future changes in accounting policies
Certain new standards, amendments and interpretations of existing standards and have been published mandatory for the Group's accounting periods beginning on 1 January 2011 or later periods but which the Group has not adopted early, are as follows:

IAS 24 Related Party Disclosures (Amendment) – effective for annual periods beginning on or after 1 January 2011.

IAS 32 Financial Instruments – Presentation – effective for annual periods beginning on or after 1 February 2010.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – effective for annual periods beginning on or after 1 July 2010.

The interpretations are not expected to have any material impact on the financial position of the Group.

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

NOTE 3 — FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise trade and other payables, financial liabilities at amortised cost and derivative financial instruments. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and short-term deposit which arise directly from its operations.

The Group has not entered into any hedging transactions in 2010 or 2009.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

(a) Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risk for the Group: interest rate risk and currency risk. Financial instruments affected by market risk include financial liabilities at amortised cost and derivative financial instruments.

The sensitivity analysis in the following sections relate to the position as at 31 December 2010 and 2009. The sensitivity analysis have been prepared on the basis that the amount of net debt and the portion of financial instruments in foreign currencies are all constant.

The analysis exclude the impact of movements in market variables on the carrying value of pension, provisions and on the non-financial assets and liabilities of foreign operations.

The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2010 and 2009.

(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 USD 20 million bond, leasing liabilities and cash equivalents. The Group's convertible bonds have fixed interest rates. The impact on the Group's profit before tax and equity from changes in the market interest rate is immaterial.

(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 foreign currencies, primarily with respect to NOK. Approximately 88% of the Group's sales are denominated in USD, whilst approximately 45% of costs are denominated in USD. 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 NOK rate	Effects on profit before tax
2010	+20%	4 894
	-20%	-7 341
2009	+20%	2 040
	-20%	-3 060

(b) Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and cash and cash equivalents). See Note 20 for aging analysis of trade receivables.

(i) Trade receivables

The Group trades with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. Although 3 major customers amounted to a significant part of 2010 sales, these customers were large international oil companies, and considered creditworthy.

The requirement for an impairment is analysed at each reporting date on an individual basis for each customer. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

With respect to credit risk arising from the other financial assets of the Group such as cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with maximum exposure equal to the carrying amount of these instruments.

(c) Liquidity risk

The Group's sources of liquidity include cash balances, cash flow from operations, borrowings, it's existing and new bank facilities and further debt and equity issues. It's the Group's objective to balance these sources of liquidity as well as the operational performance and current global capital markets will allow. The majority of customers are solid large companies and EMGS feels confident in reaching the revenue forecast necessary for a stable liquidity.

The table below summarises the maturity profile of the Group's financial liabilities 31 December based on contractual payments.

Amounts in USD 1 000	On demand	Less than 1 year	1 to 5 years	> 5 years	Total
Year ended 31 December 2010					
Interest bearing loans and borrowings	-	57 141	20 337	-	**77 478**
Trade and other payables	-	27 454	-	-	**27 454**
Other financial liabilities	-	2 082	2 652	-	**4 734**
Year ended 31 December 2009					
Interest bearing loans and borrowings	-	30 421	-	-	**30 421**
Trade and other payables	-	34 141	-	-	**34 141**
Other financial liabilities	-	4 078	4 263	-	**8 341**

See Note 23 for interest bearing loans and borrowings.

(i) Capital management
Capital includes equity attributable to the equity holder of the parent.

The primary objective of the Group's capital management is to ensure healthy capital ratios to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Due to the current market conditions, the Group considers a share issuance or a loan agreement to be potential sources for additional funding. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Group monitors its capital structure on the basis of a total equity to total assets ratio. As of 31 December 2010 this ratio was 2% (2009:24%). It is the Group's policy that the said ratio shall be above 50% during its current growth phase, which is expected to last for the next few years. As of 31 December 2010 the carrying value of equity was 2 222, significantly impacted by the fair value adjustment of the NOK 150 million convertible bond of 30 661. It is expected that exploration and production spending from customers will increase in 2011. EMGS has also experienced positive movements in negotiations with targeted oil companies. Hence, operational profits are within reach for 2011. This, together with reclassification of the fair value element of the NOK 150 million convertible bond from debt to equity and conversion of convertible loan will increase the equity ratio in 2011.

NOTE 4 — CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates could deviate from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of the Group's property, plant and equipment, and intangible assets
The Group's management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment, and intangible assets. This estimate could change significantly as a result of technical innovations and increased competition. When remaining useful lives of assets are determined to be too high, management will make appropriate estimate revisions and adjust depreciation charges prospectively. Items determined to be technically obsolete or which have been abandoned will be written off completely.

Pension obligations
The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net pension obligation at 31 December 2010 is 5 085 (2009: 5 462). Additional information is disclosed in Note 22.

Share-based payments
For options, the fair value is calculated using the Black Scholes option pricing model. Significant inputs in the model are share prices, standard deviation of share price returns, dividend yield and volatility. Changes in these estimates will influence the fair value calculated.

Joint venture
The management is required to allocate the purchase price to the assets acquired and liabilities assumed based on their estimated fair values for the joint venture. The Group engaged independent valuation specialists to determine the purchase price allocation of the shares in KJT Inc.

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

The purchased intangible assets include technology. The management's estimate of fair value and useful life are based upon assumptions believed to be reasonable, but which are uncertain and unpredictable and, as a result, actual values may differ from estimates.

Revenue recognition
The Group uses the percentage of completion method in accounting for its contracts to deliver survey services. Use of the percentage of completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. The proportion of services performed to total services to be performed can differ from management's estimates, influencing the amount of revenue recognised in the period.

Amortisation of the multi-client library
In determining the sales amortisation rates applied to the multi-client library, the Group considers expected future sales. The assumption regarding expected future sales includes consideration of geographic location, prospects, political risk and license periods.

It is difficult to make an assumption regarding future sales, hence the amortisation rate will fluctuate when the sales forecast is updated. To reduce the effect on changes in the amortisation amount caused by deviation in sales forecast from year to year, the Group has a maximum lifetime of 3 years on multi-client project.

The minimum amortisation policy is described in Note 2.5.

Impairment of non-financial assets
An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation

is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash-flow model. The cash flows are derived from the budget for the next years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Provision for onerous contracts
The Group recognises a provision for onerous contracts based on the vessel lease contracts on the vessels that are not used in production of the Group's services. The Group has calculated a best estimate of the net present value of future rental obligation based on the net charge of unavoidable lease payments on the non-operating vessels.

4.2 Critical accounting judgment

Taxes
The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the worldwide provision for income and deferred taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. In assessing whether a deferred tax asset can be realised, management uses judgment to determine that future taxable income is probable. Unrecognised tax assets at 31 December 2010 are 79 590 (2009: 63 649).

Development costs
Development costs are capitalised in accordance with accounting policy in Note 2.8 c). Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to established project management model. At 31 December 2010, the carrying amount of capitalised development costs is 1 575 (2009: 2 033).

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the income statement cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to this model are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

NOTE 5 — SEGMENT

For management purposes, the Group is organised into one reportable segment. The Group offers EM services, and the sale contracts and costs are incurred worldwide. The Group uses a patented electromagnetic survey method to find hydrocarbons in offshore reservoirs. The Group's services help oil and gas companies to improve their exploration success rates.

Management monitors the operating result of the single reportable segment for the purpose of making decisions about resource allocation and performance assessment.

No operating segments have been aggregated to form the above reportable operating segment.

The customers are international oil companies and the risk and profitability is similar in the different geographical areas.

The Group's main property, plant and equipment are the survey equipment on the vessels. As the surveys are executed world wide, the Group is not able to allocate any assets to different geographical areas.

Geographic information

Revenues from external customers

Amounts in USD 1 000	2010	2009
Norway	**22 549**	25 188
Canada	**-**	12 099
Malaysia	**14 288**	5 082
USA	**-1**	8 950
Mexico	**19 919**	-
Europe, Middle East and Africa	**12 699**	3 292
North and South America	**308**	4 338
Asia and the Pacific Ocean	**5 647**	28
Total	**75 408**	**58 978**

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 both in 2010 and 2009. Total revenues from each of these customers were in 2010 19 919, 12 951 and 8 917 (for 2009: 12 099, 6 331 and 5 720).

NOTE 6 — CHARTER HIRE, FUEL AND CREW EXPENSES

Amounts in USD 1 000	2010	2009
Charter hire and crew expenses	**29 037**	42 379
Fuel	**4 787**	4 192
Other external services	**-968**	8 640
Total charter hire, fuel and crew expenses	**32 856**	**55 211**

Charter hire and crew expenses includes provisions for onerous contracts, see Note 25.

NOTE 7 — EMPLOYEE EXPENSE

Amounts in USD 1 000	2010	2009
Employee expense		
Salaries	**21 355**	22 473
Social security tax	**3 383**	3 248
Pension costs (Note 22)	**1 597**	829
Other payments	**2 323**	2 459
Cost of share based payment (Note 14)	**1 793**	1 185
Total employee expense	**30 451**	**30 194**
Compensation of key management personnel of the Group		
Salary	**1 149**	1 338
Bonus paid in the year	**-**	517
Share options	**442**	276
Pension benefits	**54**	54
Other benefits	**73**	74
Total management remuneration	**1 718**	**2 259**

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

NOTE 8 — OTHER OPERATING EXPENSES

Amounts in USD 1 000	2010	2009
Rental and housing expenses	**3 283**	2 827
Consumables and maintenance	**1 434**	875
Consultancy fees *	**4 148**	2 993
Travel expenses	**2 221**	1 948
Insurance	**723**	676
Loss on trade receivable	**71**	99
Marketing	**644**	672
Other operating expenses	**1 932**	3 219
Total other operating expenses	**14 456**	**13 308**
*** Fees to auditor included in consultancy fees:**		
Statutory audit services	**217**	180
Further assurance services	**57**	38
Tax advisory services	**177**	226
Other non-audit services	**15**	11
Total fees to auditor	**466**	**456**

NOTE 9 — RESEARCH AND DEVELOPMENT COSTS

Research and development costs consist of 2 803 (2009:2 647) charged to the income statement as part of operating expenses and 1 257 (2009: 1 093) of amortisation of previously capitalised development costs.

NOTE 10 — FINANCIAL ITEMS

Amounts in USD 1 000	2010	2009
Financial income:		
Interest income on short term bank deposits	**201**	375
Change in fair value of conversion rights	**-**	1 212
Foreign exchange gains related to loans and receivables	**1 800**	7 187
Foreign exchange gains related to liabilities at amortised cost	**126**	-
Total financial income	**2 127**	**8 774**
Financial expenses:		
Interest expense on financial leases and bank borrowings	**1 437**	1 096
Interest expense on convertible bonds	**5 448**	3 257
Change in fair value of conversion rights	**23 754**	-
Foreign exchange losses related to loans and receivables	**2 193**	9 243
Foreign exchange losses related to liabilities at amortised cost	**-**	2 230
Other financial expenses	**702**	164
Total financial costs	**33 534**	**15 991**
Net financial income	**-31 407**	**-7 217**

The exchange rate effects are related to borrowings denominated in NOK, accounts receivables and trade payables in NOK.

NOTE 11 — INCOME TAX EXPENSE

Amounts in USD 1 000	2010	2009
Current tax	**-1 068**	-109
Total income tax expense	**-1 068**	**-109**

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	2010	2009
Loss before tax	**-56 276**	-81 404
Tax at the domestic rate of 28%	**-15 757**	-22 793
Non-deductible expenses and other	**-185**	-343
Change in deferred tax asset, not recognised	**15 942**	23 136
Foreign income taxes	**-1 068**	-109
Tax charge	**-1 068**	**-109**

NOTE 12 — DEFERRED TAX

Amounts in USD 1 000	2010	2009
Deferred taxes detailed		
Property, plant and equipment	**-7 035**	-6 062
Trade receivables	**-**	-28
Pension obligations	**-1 424**	-1 529
Accrued foreign income taxes and other accruals	**-448**	-2 632
Loss carried forward	**-70 683**	-53 398
Total deferred tax (asset)/liability	**-79 590**	**-63 649**
Non-recognised deferred tax assets	**79 590**	**63 649**
Net deferred tax assets	**-**	**-**

Deferred tax assets are recognised only to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise any deferred income tax assets through year end 2010 and 2009. Unused tax losses are generated in Norway, Malaysia and the US. It can be carried forward indefinitely in Norway and Malaysia. The unused tax loss in the US of 1 340 can be carried forward in 20 years. The unused tax loss in the US was generated in 2005, hence it will expire in 2025. The Group's temporary differences associated to investment in subsidiaries and joint venture, for which deferred tax liability has not been recognised is immaterial both for 2010 and 2009.

The current tax liabilities of 948 mainly consist of an accrual of taxes in Canada.

NOTE 13 — SHARE CAPITAL, SHARE PREMIUM AND OTHER PAID IN CAPITAL

Amounts in USD 1 000	Number of shares	Ordinary share capital	Share premium	Other paid-in capital	Total
At 1 January 2009	**91 569 261**	**3 574**	**236 457**	**4 930**	**244 961**
Proceeds from private placement	30 000 000	1 305	22 183	-	**23 488**
Proceeds from options exercised	5 000	-	4	-	**4**
Share-based payment	-	-	-	1 185	**1 185**
Cost of right issue	-	-	-1 228	-	**-1 228**
Transfer of share premium to retained earnings	-	-	-118 834	-	**-118 834**
Equity component of convertible loan	-	-	-	163	**163**
At 31 December 2009	**121 574 261**	**4 879**	**138 582**	**6 278**	**149 739**
At 1 January 2010	**121 574 261**	**4 879**	**138 582**	**6 278**	**149 739**
Proceeds from private placement	32 000 000	450	32 917	-	**33 367**
Proceeds from options exercised	250 000	10	186	-	**196**
Share-based payment	-	-	-	1 793	**1 793**
Cost of right issue	-	-	-2 715	-	**-2 715**
At 31 December 2010	**153 824 261**	**5 340**	**168 970**	**8 071**	**182 381**

At the private placement issue in January EMGS issued 4 000 000 shares at the price of USD 0.78 (NOK 4.50) per share. Costs related to this capital increase of 243 were recorded as a reduction of the share premium.

At the private placement issue in July EMGS issued 28 000 000 shares at the price of USD 1.08 (NOK 7.00) per share. Costs related to this capital increase of 2 338 were recorded as a reduction of the share premium.

The total authorised number of ordinary shares is 195 144 017 (2009: 137 353 889) with a par value of USD 0.04 (NOK 0.25) per share. All issued shares are denominated in NOK and fully paid. Largest shareholders as of 31 December 2010 were as follows:

	Number of ordinary shares	Percentage
Shareholders		
Warburg Pincus	61 873 434	40.22 %
Odin Norge	7 506 324	4.88 %
Odin Offshore	3 860 000	2.51 %
DNB NOR SMB	3 667220	2.38 %
Sissener Sirius ASA	3 450 000	2.24 %
JP Morgen Chase Bank	2 799 798	1.82 %
Sundt AS	2 500 000	1.63 %
DNB NOR Navigator	2 170 123	1.41 %
Toluma Norden AS	2 050 000	1.33 %
Bruheim, Bjarte Henry	2 000 088	1.30 %
Delphi Norge	1 750 000	1.14 %
Deutsche Bank AG London	1 335 284	0.87 %
Kommunal Landspensjonskasse	1 312 070	0.85 %
JPM BLSA	1 300 500	0.85 %
VPF Nordea Kapital	1 297 057	0.84 %
Sportsmagasinet AS	1 297 000	0.84 %
Caceis Bank Luxembourg	1 263 532	0.82 %
EM-SBL Holding AS	1 200 000	0.78 %
Statoil Pensjon	1 165 410	0.76 %
RBC Trust Company (Jersey) Limited	1 150 000	0.75 %
Others	48 876 421	31.78 %
Total	**153 824 261**	**100 %**

NOTE 14 — SHARE OPTIONS

Share options are granted to employees and Board of Directors.

The expense recognised for employee services during the year is:

Amounts in USD 1 000	2010	2009
Expense arising from share based options	**1 793**	1 185

The vesting period is the period during which the conditions to obtain the right to exercise are to be satisfied. The options granted shall vest as follows:

- 20 % on the Grant Date
- 20 % one year following the Grant Date
- 20 % two years following the Grant Date
- 20 % three years following the Grant Date
- 20 % four years following the Grant Date

The Grant expires seven years following the Grant Date. A condition to hold options within the Company is continued employment.
The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be actual outcome.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The cost of the options is calculated based on the Black Scholes option pricing model.

The following table lists the inputs to the model used for the plan for the years ended 31 December 2010 and 2009:

	2010	2009
Expected volatility	**60 %**	60 %
Risk free interest rate	**2.79 %**	2.83 %
Expected life of options (years)	**4**	4
Weighted average share price (USD)	**0.98**	0.74

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:

	2010		2009	
	Average exercise price in USD per share	Options	Average exercise price in USD per share	Options
At 1 January	**3.26**	**6 678 200**	**3.86**	**4 999 800**
Granted	**0.98**	**3 260 000**	0.74	2 460 000
Forfeited	**-**	**-**	-	-
Exercised	**0.81**	**250 000**	0.74	-5 000
Terminated	**2.13**	**654 000**	4.23	-705 000
Lapsed	**3.22**	**16 000**	6.07	-71 600
Cancelled	**5.13**	**1 822 000**	-	-
At 31 December	**1.05**	**7 196 200**	**3.26**	**6 678 200**
Exercisable at 31 December	**1.32**	**1 824 000**	**3.63**	**2 845 200**

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

2009

	In USD per share	Options
2010	4.50, 1.90, 5.19, 3.46, 6.92 and 0.74	**96 500**
2011	1.90	**445 000**
2012	1.90	**120 000**
2013	4.50 and 2.34	**765 700**
2014	15.58	**10 000**
2015	3.46, 5.19, 5.83, 6.92 and 8.59	**2 866 000**
2016	0.74	**2 375 000**
		6 678 200

2010

	In USD per share	Options
2011	1.87	**425 000**
2012	1.87	**40 000**
2013	4.44 and 2.31	**54 000**
2014	0.99	**1 639 200**
2015	3.42, 6.83 and 5.2	**106 000**
2016	0.73	**1 907 000**
2017	0.94 and 0.99	**3 025 000**
		7 196 200

The weighted average remaining contractual life for the share options outstanding as at 31 December 2010 is 4.93 years (2009: 5.42 years).

The weighted average fair value of options granted during the year was NOK 0.47 (2009: 2.07).

NOTE 15 — INTANGIBLE ASSETS

Amounts in USD 1 000	Software and licenses	Patents	Multi-client library	Total
At 1 January 2009				
Accumulated cost	5 912	1 673	16 889	**24 474**
Accumulated amortisation	-2 685	-1 116	-16 889	**-20 690**
Net carrying value	**3 227**	**557**	**-**	**3 784**
Year ended 31 December 2009				
Opening carrying value	3 227	557	-	**3 784**
Additions	331	-	-	**331**
Capitalised internally developed software	807	-	-	**807**
Amortisation charge	-1 886	-174	-	**-2 060**
Closing carrying value	**2 479**	**383**	**-**	**2 862**
At 31 December 2009				
Accumulated cost	7 050	1 673	16 889	**25 612**
Accumulated amortisation	-4 571	-1 290	-16 889	**-22 750**
Net carrying value	**2 479**	**383**	**-**	**2862**
Year ended 31 December 2010				
Opening carrying value	2 479	383	-	**2 862**
Additions	28	-	9 979	**10 007**
Capitalised internally developed software	800	-	-	**800**
Amortisation charge	-1 592	-167	-4 083	**-5 842**
Closing carrying value	**1 715**	**216**	**5 896**	**7 827**
At 31 December 2010				
Accumulated cost	7 878	1 673	26 868	**36 419**
Accumulated amortisation	-6 163	-1 457	-20 972	**-28 592**
Net carrying value	**1 715**	**216**	**5 896**	**7 827**

The amortisation expense on multi-client library only includes amortisation of costs directly linked to production, such as acquisition costs, processing costs, and direct project costs. No impairment has been recorded in 2010 or 2009. Multi-client revenue recognised in 2010 amounted to 11 335 (2009: 19 385).

The patents are related to electromagnetic method, the Group's proprietary process which allows for the direct detection of hydrocarbons under the earth. The remaining amortisation period is 1 year and 4 month.

	Estimated useful lives
Patents	10 years
Software and licenses	3 years

NOTE 16 — PROPERTY, PLANT AND EQUIPMENT

Amounts in USD 1 000	Machinery and equipment	Hardware and furniture	Cluster	Total
At 1 January 2009				
Accumulated cost	69 266	13 258	8 621	**91 144**
Accumulated amortisation	-39 764	-5 945	-2 770	**-48 479**
Net carrying value	**29 501**	**7 313**	**5 851**	**42 665**
Year ended 31 December 2009				
Opening carrying value	29 501	7 313	5 851	**42 665**
Additions	11 157	250	-	**11 407**
Accumulated costs on disposals	-11 097	-71	-119	**-11 287**
Depreciation charge	-16 526	-3 374	-1 747	**-21 647**
Accumulated depreciation on disposals	10 945	34	-	**10 979**
Closing carrying value	**23 979**	**4 152**	**3 985**	**32 117**
At 31 December 2009				
Accumulated cost	69 326	13 437	8 502	**91 265**
Accumulated amortisation	-45 346	-9 285	-4 517	**-59 148**
Net carrying value	**23 979**	**4 152**	**3 985**	**32 117**
Year ended 31 December 2010				
Opening carrying value	23 979	4 152	3 985	**32 116**
Additions	5 020	920	1 424	**7 364**
Accumulated costs on disposals	-2 077	-	-	**-2 077**
Depreciation charge	-12 320	-2 680	-1 672	**-16 672**
Accumulated depreciation on disposals	2 373	-	-	**2 373**
Closing carrying value	**16 975**	**2 392**	**3 737**	**23 104**
At 31 December 2010				
Accumulated cost	72 269	14 357	9 926	**96 552**
Accumulated amortisation	-55 294	-11 965	-6 189	**-73 448**
Net carrying value	**16 975**	**2 392**	**3 737**	**23 104**

Finance leasing included in property, plant and equipment:

2009				
Cost of capitalised finance leases	4 846	7 272	8 502	**20 620**
Accumulated depreciation	-969	-5 276	-4 517	**-10 762**
Net carrying value	**3 877**	**1 996**	**3 985**	**9 858**
2010				
Cost of capitalised finance leases	4 846	7 594	9 926	**22 366**
Accumulated depreciation	-1 938	-6 866	-6 188	**-14 992**
Net carrying value	**2 908**	**728**	**3 738**	**7 374**

The amount of property, plant & equipment pledged as security for liabilities has a net carrying value of 23 104 as of 31 December 2010 (2009: 32 117).

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

NOTE 17 — OTHER RECEIVABLES AND ASSETS UNDER CONSTRUCTION

Amounts in USD 1 000	2010	2009
Prepayments	**2 690**	4 083
Receivables VAT	**-621**	305
Deferred mobilization expenses	**1 446**	-
Other receivables	**943**	2 536
Total other receivables	**4 458**	**6 924**
R&D projects under development	**9 085**	10 533
Total assets under construction	**9 085**	10 533

Fair value of the receivables approximates the nominal values.

NOTE 18 — INTEREST IN A JOINT VENTURE

The Group has a 40% interest and owns 50% of the voting shares in KJT Inc, a jointly controlled entity. KJT is an unlisted company based in the USA which offers an alternative to the Group's proprietary methodologies in shallow water applications.

The following table illustrates summarised financial information of the Group's investment in KJT Inc:

Share of the joint venture's balance sheet:

Amounts in USD 1 000	2010	2009
Current assets	**367**	607
Non-current assets	**37**	63
Current liabilities	**114**	1 136
Non-current liabilities	**-**	-
Net assets	**290**	**-465**
Value of technology	**2 725**	3 480
Value of goodwill	**-**	-
Carrying amount of investment	**3 015**	**3 015**

Amounts in USD 1 000	2010	2009
Share of the joint venture's revenue and profit:		
Revenue	**283**	2 110
Results	**755**	-1 160
Amortisation of technology (10 years)	**755**	522
Impairment	**-**	8 149
Bonus accrual	**-**	915
Recognised in the Consolidated Income Statement	**-**	**-10 746**

The recoverable amount of the KJT investment is determined based on a value in use calculation which uses pre-tax cash flow projections based upon financial budget. The goodwill and some of the value of technology acquired in the purchase of KJT Inc were impaired during 2009. KJT Inc was defined as one cash-generating unit in the impairment testing.

The Group performed an impairment test as at 30 June 2009. The pre-tax discount rate applied to the cash flow projections was 13.7% and cash flows beyond the one year of budgeted numbers were extrapolated using a 12% growth rate in revenues for 2010-2012, 7% growth rate for 2013-2014 and 5% growth rate after that. This growth rate exceeded the average growth rate for peer group consisting of mostly seismic companies. The growth rate was justified based on that KJT is a newer company that is in a different stage of development than most of the companies in the peer group. In addition, KJT is not as capital intensive as the seismic companies. As a result of this analysis, management has recognised an impairment charge of 7 453 against goodwill and 696 against technology, this was recorded as Share of profit of joint venture in the income statement.

The calculation of value in use for KJT Inc is most sensitive to the following assumptions:

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) margin
Discount rate
Growth rate used to extrapolate cash flows beyond the budget period

EBITDA margin - EBITDA margin is based on average values in the two years preceding the start of the budget period. The EBITDA margin is kept constant at 35% per annum over the period.

Discount rate - The discount rate reflects the current market assessment of the risks specific to KJT Inc. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to KJT Inc for which future estimates of cash-flows have not been adjusted.

Growth rate estimates - Rates are based on published industry research . For the reasons explained above, the growth rates used to extrapolate the budget have been adjusted by an additional element.

In February 2011, EMGS entered into a license agreement for the KJT IP portfolio and used the shares in KJT as part of the consideration, see Note 34 for further description.

NOTE 19 — SPARE PARTS, FUEL, ANCHORS AND BATTERIES

Amounts in USD 1 000	2010	2009
Equipment components and parts, at cost	**7 611**	6 706
Anchors and batteries, at cost	**943**	827
Fuel, at cost	**739**	614
Total spare parts, fuel, anchors and batteries	**9 293**	**8 147**

Inventory items expensed during 2010 amounted to 8 051 (2009: 4 916) and are included as components of operating expenses.

NOTE 20 — TRADE RECEIVABLES

Amounts in USD 1 000	2010	2009
Accounts receivable	**10 804**	6 674
Accrued revenues	**9 836**	3 355
Provision for doubtful receivables	**-**	-99
Total trade receivables	**20 640**	**9 930**

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

Fair value of the receivables approximates the nominal values, less provision for doubtful receivables.

Generally, the Group trades with recognised, creditworthy customers. The customers are usually large oil companies with an appropriate credit history. Only in a few instances services are performed for smaller companies with limited credit history.

At 31 December 2010 EMGS did not find it necessary to make any provision for doubtful trade receivables (2009: 99).

Movements in the provision for doubtful receivables are as follows:

Amounts in USD 1 000	2010	2009
At 1 January	**-99**	**-1 387**
Charge for the year	**-**	-99
Amounts written off	**99**	1 387
At 31 December	**-**	**-99**

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

Amounts in USD 1 000	Total	Not due	< 30 days	30-60 days	60-90 days	90-120 days	>120
2010	**10 804**	**6 942**	**3 058**	**5**	**57**	**0**	**742**
2009	6 674	380	2 993	752	0	1 494	1 056

NOTE 21 — CASH AND CASH EQUIVALENTS

Amounts in USD 1 000	2010	2009
Cash	**21 340**	27 232
Restricted cash current	**10 884**	1 443
Restricted cash non-current	**7 326**	903
Total cash and cash equivalents	**39 550**	**29 578**

Cash earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents equals the nominal value.

NOTE 22 — EMPLOYEE BENEFIT OBLIGATIONS

The Company operates a defined benefit plan. The number of employees included as of year end is 126 in 2010 and 138 in 2009. The plan only includes employees employed in Norway.

The Management decided to implement changes in the defined benefit plan with effect from 1 September 2009. After 1 September 2009 the pension payment to retired employees is regulated according to the Norwegian Pension Law's minimum requirement each year, instead of regulation in accordance with Norwegian National Insurance's base amount as of May each year. In addition, the funded part in disability-, spouse- and child-pension was closed as of 1 September 2009. Hence, the Company does no longer pay a premium up-front for the future risk for the employees' potentially permanent occupational disability or death. The effects on the pension liability and the expense are shown as Curtailment below.

Employees that leave the Company before the age of retirement receive a paid-up policy. At the time of issuance of paid-up policies, the Company is relieved of any further obligations towards these people. The obligations are valued at the time of issuance of paid-up policies, and are derecognised from pension obligations and plan assets. The effects on pension liability and pension expense from the reduction in number of employees are shown as Plan amendments below.

Amounts in USD 1 000	2010	2009
Balance sheet obligations for:		
Pension obligations	**5 085**	5 462
Income statement charge for:		
Pension obligations	**1 597**	829

Pension benefit obligation:

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

Amounts in USD 1 000	2010	2009
Defined benefit obligation	**5 900**	5 352
Fair value of plan assets	**-3 042**	-2 637
	2 858	**2 714**
Unrecognised actuarial gain (loss)	**2 227**	2 748
Liability in the balance sheet	**5 085**	**5 462**

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

Amounts in USD 1 000	2010	2009
Beginning of the year	**5 352**	9 677
Exchange differences	**4**	854
Current service cost	**1 424**	3 201
Interest cost	**211**	305
Plan amendments	**-**	-2 894
Actuarial losses/(gains)	**-1 055**	-3 374
Curtailment	**-**	-2 434
Social security tax	**-36**	16
End of the year	**5 900**	**5 352**

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

Amounts in USD 1 000	2010	2009
Beginning of the year	**2 637**	2 605
Expected return on plan assets	**186**	161
Actuarial (losses)/gains	**-1 377**	20
Plan amendments	**-**	-469
Exchange differences	**-62**	473
Employer contributions	**1 657**	614
Curtailment	**-**	-768
End of the year	**3 042**	**2 637**

The amounts recognised in the income statement are as follows:

Amounts in USD 1 000	2010	2009
Current service cost	**1 424**	3 201
Interest cost	**211**	305
Expected return on plan assets	**-186**	-161
Amortisation of actuarial (gain)/loss	**-101**	18
Impact of plan amendments	**-**	-2 768
Social security tax	**210**	477
Administration fee	**39**	37
Impact of curtailment funded status	**-**	-1 901
Impact of curtailment net actuarial losses (gains)	**-**	1 622
Net benefit expense	**1 597**	**829**

The principal actuarial assumptions used are as follows:

	2010	2009
Discount rate	**4.00 %**	4.40 %
Expected rate of return on plan assets*	**5.40 %**	5.60 %
Expected future salary increases	**4.00 %**	4.25 %
Expected rate of pension increases	**3.75 %**	4.00 %
Expected rate of regulation of pensions under payment	**1.30 %**	1.30 %
Social security tax - rate	**14.10 %**	14.10 %

*The expected rate of return on plan assets is determined based on market prices prevailing on that date, applicable to the period over which the obligation is to be settled. The actual return on plan assets in 2009 was 149.

The change in actuarial assumptions in 2010 is in accordance with guidance published by the Norwegian Accounting Standards Board in January 2011.

Assumptions regarding future mortality experience are based on public statistics. The mortality table, K2005, is based on best estimates for the population in Norway.

Plan assets comprise:

	2010	2009
Shares	**15.10 %**	3.80 %
Bonds and money market	**32.80 %**	43.90 %
Hold to maturity bonds	**33.70 %**	28.80 %
Real estate	**16.80 %**	16.80 %
Other	**1.60 %**	6.70 %
Total	**100 %**	**100 %**

Expected contributions to the defined benefit plan for the year ending 31 December 2011 are 1 778.

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

Amounts in USD 1 000	2010	2009	2008	2007	2006
As at 31 December					
Defined benefit obligation	**5 900**	5 352	9 677	7 821	3 683
Plan assets	**3 042**	2 637	2 605	3 681	1 648
Deficit/(surplus)	**2 858**	**2 714**	**7 072**	**4 140**	**2 035**
Actuarial gains on plan liabilities	**- 1 507**	-3 374	-434	978	326
Actuarial gains on plan assets	**1 416**	-20	1 469	45	32

NOTE 23 — BORROWINGS

Amounts in USD 1 000	Interest rate	Maturity	2010	2009
Non-current				
USD 20 000 000 bond	LIBOR + 8.0%	21 January 2014	**20 337**	-
Finance lease liabilities	3 month NIBOR + 1.95%	2-3 years	**2 652**	4 263
Total			**22 989**	4 263
Current				
NOK 150 000 000 convertible bond	7.0%	2 January 2012	**52 169**	25 661
USD 5 000 000 convertible bond	9.0%	18 May 2011	**4 972**	4 760
Finance lease liabilities	3 month NIBOR + 1.95%	Up to 1 year	**2 082**	4 077
Total			**59 223**	34 499
Total borrowings			**82 212**	**38 762**

Finance lease liabilities
The finance lease liabilities relate to certain property, plant and equipment and are capitalised leases for financial reporting purposes. The related leased property, plant and equipment serve as the collateral under such leases.

NOK 150 000 000 convertible bond
Fugro N.V has provided EMGS a NOK 150 000 000 secured convertible loan bearing an interest at 7.00% p.a in April 2009. The loan can at any time be converted into common shares in EMGS at the conversion price of NOK 5.40 until the maturity date on 2 January 2012.

As the functional currency in EMGS is USD and the conversion price for the Fugro convertible loan is in NOK, the loan cannot be seen as a contract settled by an entity by delivering a fixed number of its own equity instruments in exchange for a fixed amount of foreign currency, but for a variable number of its own equity instrument based on the NOK/USD exchange rate fluctuation. The loan contains an embedded derivative and the Group therefore has to designate the embedded derivative as a financial liability at fair value through profit or loss.
The economic components of the NOK 150 000 000 convertible bond are:

(a) A liability component, the holder's put option (right to convert at any time). This option has to be calculated at fair value through profit or loss. The fair value calculation is based on the Black Scholes option pricing model and,

(b) An additional liability component, the residual is measured at amortised cost using the effective interest rate method.

The Group has therefore calculated the fair value of the put option. The fair value of the derivative at the disbursement date was 7 563 and subsequent changes in fair value are charged to the income statement. At 31 December 2010 the fair value was estimated to 30 661 (2009: 7 037) resulting in a financial loss in the income statement in 2010 of 23 754 (2009: gain of 1 212). The residual, an additional liability component, is measured at amortised cost using the effective interest rate method. As of end December 2010, the value of this component amounted to 21 508 (2009: 18 624).

The NOK 150 000 000 convertible bond is secured by first priority pledge of machinery, equipment and inventory.

As a result of a breach of one of the covenants (equity ratio of more than 25%), the long term convertible loan is classified as a current liability. The bondholder has given a waiver where the fair value adjustment is excluded from the equity ratio calculation.

See Note 34 for reclassification of the fair value of the conversion right to equity in 2011.

USD 5 000 000 convertible bond
On 30 April 2009, EMGS secured a USD 5 million senior unsecured convertible bond bearing an interest at 9.00% p.a. The loan can at any time be converted into common shares in EMGS at the conversion price of USD 0.86 until the maturity date on May 18, 2011.

The USD 5 000 000 convertible bond has a fixed exchange rate for the conversion right, hence it is denominated in USD. The loan can be seen as a contract settled by an entity by delivering a fixed amount of its own equity instruments in exchange for a fixed amount of foreign currency.

The economic components of this convertible bond are:

(a) A liability. On issuance of the convertible bond, the fair value of the liability component was determined using a market rate for an equivalent non-convertible bond; and classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

(b) An equity component. The residual of the proceeds was allocated to the conversion option that was recognised in shareholders' equity.

At inception the value of the liability component was estimated to 4 592, and amortised cost as 31 December 2010 was 4 972 (2009: 4 760). The equity component, the carrying amount of the conversion option, was estimated to 163 at inception and is not remeasured in subsequent periods.

At the end of 2010, EMGS was in breach of one financial covenant (equity ratio of more 25%). The bondholders have given a waiver where the fair value adjustment of the NOK 150 000 000 convertible loan is excluded from the equity ratio calculation.

See Note 34 for conversion of the USD 5 000 000 convertible bond in March 2011.

USD 20 000 000 bond
On 19 July 2010, EMGS secured a USD 20 000 000 bond bearing an interest at LIBOR + 8.00% p.a.

The bond is secured by first priority pledge over a debt service account, an earnings account, and in any intra Group loans, and a second priority pledge over a performance guarantee account.

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	2010	2009
6 months or less	**25 071**	8 340
6-12 months	**-**	-
1-5 years	**-**	-
Over 5 years	**-**	-
Total	**25 071**	8 340

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	2010	2009
Between 1 and 3 years	**2 336**	2 764
Between 3 and 5 years	**20 653**	1 499
Over 5 years	**-**	-
Total	**22 989**	4 263

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

Amounts in USD 1 000	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
USD 20 000 000 bond	**20 337**	-	**20 337**	-
Leasing liabilities	**2 652**	4 263	**2 652**	4 263

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

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

Amounts in USD 1 000	2010	2009
USD denominated	**25 309**	4 760
NOK denominated	**56 903**	34 001
Total	**82 212**	38 762

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

	2010		2009	
	NOK	USD	NOK	USD
Leasing liabilities	**8.38 %**		7.35 %	
NOK 150 000 000 convertible bond	**6.42 %**		6.42 %	
USD 5 000 000 convertible bond		**3.43 %**		3.43 %
USD 20 000 000 bond		**2.27 %**		

NOTE 24 — TRADE PAYABLES

Trade payables are generally non-interest bearing and on 30 days payment terms. Fair value of the payables equals the nominal value of 12 752 (2009: 14 570).

NOTE 25 — PROVISIONS

Provisions for onerous contracts
The Group recognises a provision for onerous contracts based on the vessel lease contracts on the vessels that are not used in production of the Group's services. The Group has calculated a best estimate of the net present value of future rental obligation based on the net charge of unavoidable lease payments on the non-operating vessels. For the vessel that is sub-leased, the net amount of lease payments to the vessel owner and revenues from the sub-lease is recorded as a provision. As of 31 December 2010, total amount accrued was 774 including decommissioning costs (2009: 6 718). The remaining vessel not in use was decommissioned and returned to the owner in January 2011.

NOTE 26 — OTHER SHORT TERM LIABILITIES

Amounts in USD 1 000	2010	2009
Accrued expenses	**7 045**	4 141
Holiday pay	**1 591**	1 710
Social security taxes and other public duties	**2 490**	1 869
Other short term liabilities	**1 855**	3 086
Total other short term liabilities	**12 980**	**10 806**

Accrued expenses are generally on 30 days payment terms.

NOTE 27 — FINANCE LEASE OBLIGATIONS

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

Amounts in USD 1 000	2010	2009
Finance lease liabilities – minimum lease payments:		
No later than 1 year	**2 412**	4 459
After 1 year and no more than 5 years	**2 909**	4 894
After more than 5 years	**-**	-
Total minimum lease payments	**5 321**	**9 353**
Future finance charges on finance leases	**-588**	-1 013
Present value of finance lease liabilities	**4 733**	8 340
The present value of finance lease liabilities is as follows:		
No later than 1 year	**2 081**	4 077
After 1 year and no more than 5 years	**2 651**	4 263
After more than 5 years	**-**	-
Total present value of finance lease liabilities	**4 733**	**8 340**
Contract terms regarding property rights at expiration of the contract:		
The ownership will be negotiated at the end of the leasing period.		

NOTE 28 — CONTINGENCIES

The Group has contingent liabilities in respect of other guarantees and matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

The Group has given guarantees in the ordinary course of business to third parties as specified below:

Amounts in USD 1 000	2010	2009
Office premises rental guarantees	**900**	903
Guarantees on client contracts	**16 442**	657
Total guarantees	**17 341**	**1 560**

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

NOTE 29 — COMMITMENTS

Operating lease commitments:

The Group has operating leases on charter hires, office premises and IT infrastructure.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Amounts in USD 1 000	2010	2009
No later than 1 year	**21 652**	34 339
After 1 year and no more than 5 years	**46 459**	66 970
After more than 5 years	**-**	-
Total operating lease commitments	**68 111**	**101 309**

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	2010	2009
Charter hire	**33 049**	34 560
Office premises	**2 292**	2 040
Total	**35 341**	**36 600**

Other contractual commitments:
Through the purchase of KJT Inc shares in 2007, the Group was committed to pay performance bonus of 1 006 over 3 years and retention bonus of 1 869 after 3 years to KJT employees. The Group did also enter into an 11 year's license agreement with KJT Inc. where 50 should be paid to KJT annually as license fees from 2008 to 2019.

EMGS sold its shares in KJT and entered into a license agreement for the KJT IP portfolio in February 2011. The 11 year's license agreement was settled and KJT employees are no longer entitled to performance bonus from EMGS.

NOTE 30 — LEGAL CLAIM

In April - June of 2007, Schlumberger Holdings Limited ("Schlumberger") launched legal proceedings in the High Court of London and before the District Court of The Hague seeking to revoke three of EMGS' patents.

- A hearing before the District Court of The Hague took place in February 2008, and the decision to stay proceedings until the European Patent Office (EPO) had reached a final decision, was received on 16 April 2008. The patents remain valid and enforceable in the Netherlands throughout the period of stay in proceedings. A final decision from the EPO is expected within a couple of years.

- The UK patent appeal court published the decision that the two challenged EMGS patents were valid on 28 July 2010. Leave to appeal was given to Schlumberger on 9 February 2011. The Supreme Court hearing is expected to take place in Q4 2011.

No accruals are made for the legal proceedings as of 31 December 2010.

NOTE 31 — EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Amounts in USD 1 000	2010	2009
Loss attributable to equity holders of the Company	**-55 208**	-81 295
Weighted average number of ordinary shares outstanding (thousands)	**137 044**	93 460
Loss per share (USD per share)	**-0.40**	**-0.87**

The Company has two categories of dilutive potential ordinary shares; share options and convertible bonds. Both share options and convertible bonds would decrease the loss per share and accordingly these effects have not been taken into account when calculating diluted loss per share.

NOTE 32 — RELATED PARTY TRANSACTIONS

The Company has an agreement with BKCCA Oilfield Services de Mexico S.A. de C.V. (BKCCA). BKCCA will provide marketing services on behalf of the Company relating to work for PEMEX. Under the terms of the agreement, BKCCA is entitled to receive 7% commission on each PEMEX contract obtained by the Company. Bjarte H. Bruheim holds 24% of the shares in BKCCA.

The following transactions were carried out with related parties:

Amounts in USD 1 000	2010	2009
Purchases of goods and services		
BKCCA	**1 394**	-

Year end balances arising from purchases of goods:

Amounts in USD 1 000	2010	2009
Payables to related parties:		
BKCCA	**609**	-

NOTE 33 — INVESTMENT IN SUBSIDIARIES

Company	Share ownership/ voting rights 2010	Share ownership/ voting rights 2009	Equity 31 Dec 2010	Equity 31 Dec 2009	Location
EMGS Americas 1 AS	100 %	100 %	41	15	Trondheim, Norway
EMGS Americas 2 AS	100 %	100 %	15	15	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	100 %	-85	10	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	100 %	100 %	1 818	2,020	Rio de Janeiro, Brasil
EMGS Americas Inc	100 %	100 %	-1 386	-1 607	Delaware, USA
EMGS International B.V.	100 %	100 %	-47	-37	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	1 %	1 %	213	272	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100 %	100 %	266	31	Kuala Lumpur, Malaysia
Global EMGS Nigeria Ltd	35 %	35 %	-356	-191	Lagos, Nigeria
EMGS Australia Pty Ltd	100 %	100 %	60	21	Perth, Australia
EMGS AS	100 %	100 %	15	18	Trondheim, Norway
EMGS Sea Bed Logging Mexico S.A. de C.V.	100 %	0 %	239	-	Col. Del Valle, Mexico
EMGS Shipping Mexico S. de R.L. de C.V.	49 %	0 %	143	-	Col. Del Valle, Mexico
EMGS Labuan Ltd	100 %	0 %	208	-	Labuan, Malaysia

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

NOTE 34 — EVENTS AFTER THE REPORTING PERIOD

Change in functional currency of EMGS ASA

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

The change in functional currency has a significant impact on the value of the conversion rights recorded in the balance sheet at 31 December 2010. The USD 30.7 million fair value of the conversion right relating to the NOK 150 million convertible bond is re-classified from current liabilities to equity. In addition, the USD 5 million convertible bond will be subject to fair value adjustment and the fair value of the conversion right will be recorded as current liabilities.

Conversion of the USD 5 million convertible bond

EMGS received a request from the bondholders of the USD 5 million convertible bond to convert the bond into shares in March 2011. A total of 5 813 954 shares were converted at USD 0.86 per share.

Sale of shares in KJT

In February 2011, EMGS entered into an agreement with KJT for a perpetual license to their patent portfolio. The total consideration paid for the perpetual license was a combination of USD 600 000 in cash and the shares in KJT owned by EMGS.

THIS SECTION

ELECTROMAGNETIC GEOSERVICES ASA

INCOME STATEMENT

Amounts in NOK 1 000	Note	2010	2009
Operating revenues			
Contract sales	1, 11	**422 606**	366 700
Total operating revenues		**422 606**	**366 700**
Operating expenses			
Charter hire, fuel and crew expenses	2, 3, 4	**186 018**	347 508
Employee expenses	5, 6	**173 423**	182 282
Depreciation and ordinary amortisation	7	**107 058**	138 093
Multi-client amortisation	7	**25 209**	-
Other operating expenses	6	**88 588**	84 310
Total operating expenses		**580 297**	**752 193**
Operating income		**-157 692**	**-385 493**
Financial income and expenses			
Financial income	16	**21 164**	50 213
Financial expenses	16	**79 370**	79 734
Net financial items		**-58 206**	**-29 521**
Joint venture		**2 190**	**-58 411**
Income (loss) before tax		**-213 708**	**-473 425**
Income tax expenses	8	**-9 766**	-917
Net income (loss) for the year		**-203 942**	**-472 508**
For information:			
Dividend		**-**	-

ASSETS

Amounts in NOK 1 000	Note	2010	2009
Non-current assets			
Intangible assets			
Patents	7, 9	**2 000**	3 500
Multi-client library	7	**37 731**	-
Software, licenses etc.	7, 9	**10 016**	13 481
Total intangible assets		**49 747**	**16 981**
Property, plant and equipment	7, 9	**136 550**	**188 985**
Financial assets			
Restricted cash		**42 907**	-
Investment in subsidiaries	10	**6 884**	5 334
Interest in joint ventures	17	**19 257**	19 257
Total financial assets		**69 049**	**24 591**
Total non-current assets		**255 346**	**230 557**
Current assets			
Inventories	3	**49 723**	46 755
Trade receivables	9, 11 ,12	**70 466**	57 361
Receivables group companies	12	**75 772**	15 000
Other receivables		**84 629**	98 204
Cash and cash equivalents	13	**75 870**	158 715
Restricted cash	13	**63 740**	4 538
Total current assets		**420 200**	**380 573**
Total assets		**675 545**	**611 130**

EQUITY AND LIABILITIES

Amounts in NOK 1 000	Note	2010	2009
Equity			
Paid-in capital			
Share capital	14, 15	**38 456**	30 393
Share premium	14, 15	**609 978**	419 941
Other paid-in capital	14, 15	**47 604**	36 721
Total paid-in capital		**696 038**	**487 055**
Retained earnings			
Other equity (uncovered loss)	15	**-498 071**	-294 129
Total retained earnings		**-498 071**	**-294 129**
Total equity		**197 967**	**192 926**
Liabilities			
Provisions			
Pension liabilities	5	**29 782**	31 552
Total provisions		**29 782**	**31 552**
Other long-term liabilities			
Borrowings	7, 9, 18	**134 631**	24 627
Total other long-time liabilities		**134 631**	**24 627**
Current liabilities			
Borrowings	9, 18	**167 703**	158 643
Trade payables		**69 605**	83 772
Current tax liability	8	**4 833**	15 655
Public taxes and duties payable		**16 465**	18 095
Provisions	19	**4 535**	38 809
Other current liabilities		**50 024**	47 051
Total current liabilities		**313 165**	**362 025**
Total liabilities		**477 578**	**418 204**
Total equity and liabilities		**675 545**	**611 130**

CASH FLOW STATEMENT

Amounts in NOK 1 000	2010	2009
A) Cash flow from operating activities		
Funds sourced from operations *)	**-29 812**	-259 718
Changes in inventories, accounts receivable and accounts payable	**-91 012**	11 262
Changes in other accrual items	**-31 951**	29 292
Net cash flow from operating activities	**-152 775**	**-219 164**
B) Cash flow from investing activities		
Purchase of property, plant and equipment	**-111 302**	-77 855
Disposal property, plant and equipment	**-439**	574
Net purchase and proceeds from other investments	**-**	-
Interest in joint ventures	**-1 550**	-
Net cash flow from investing activities	**-113 291**	**-77 281**
C) Cash flow from financial activities		
Proceeds from debt raised (long- and short term)	**2 087**	209 486
Reduction of long term debt	**-22 556**	-27 402
Net change in bank overdraft	**-**	-12 730
Proceeds from equity paid-in	**198 102**	127 919
Proceeds from bond offering	**123 532**	-
Payment of interest on convertible bonds	**-15 835**	-6 085
Net cash flow from financial activities	**285 330**	**291 188**
A+B+C) Net change in cash and cash equivalents	**19 264**	-5 257
Cash and cash equivalents at 01.01	**163 253**	168 510
Cash and cash equivalents at 31.12	**182 517**	**163 253**
Calculation of cash and cash equivalents		
Cash and cash equivalents	**177 428**	158 715
Employee withholding taxes	**5 089**	4 538
Cash and cash equivalents at 31.12	**182 517**	**163 253**
***) Calculation of funds sourced from operations**		
Net profit (loss) before income taxes	**-213 708**	-473 425
Depreciation and amortisation	**132 268**	138 093
Income tax expense	**9 766**	917
Option cost	**10 883**	7 221
Net loss & impairment of joint venture	**-**	51 704
Amortisation of interest	**31 837**	14 727
Profit (loss) disposal property, plant and equipment	**-858**	1 045
Funds sourced from operations	**-29 812**	**-259 718**

NOTES

ACCOUNTING PRINCIPLES

The annual report is prepared according to the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Use of estimates

The management has used estimates and assumptions that have affected assets, liabilities, income, expenses and information on potential liabilities in accordance with generally accepted accounting principles in Norway.

Sale revenue

Sales revenues are recognised based on the percentage of completion method. Mobilisation fees are recognised over the acquisition period of the contract, representing the acquisition period of the geological information.

Current assets and current liabilities

Net current assets and current liabilities are comprised of accounts due within one year, and entries related to goods in circulation. Current assets are valued at the lower of acquisition cost and fair value. Current liabilities are recognised at nominal value.

Non-current assets and long-term liabilities

Non-current assets are comprised of assets held for permanent possession and use. The assets are valued at the cost of acquisition. Non-current assets are capitalised and depreciated over it's estimated useful economic life. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading are added to the acquisition cost and depreciated with the related asset. A write down to fair value will be carried out if the reduction in value is caused by circumstances which may not be regarded as incidental, and deemed necessary by generally accepted accounting principles. Write downs will be reversed when the cause of the initial write down is no longer present. Long term-liabilities are recognised at nominal value less transaction costs.

Leased assets

Leases that provide EMGS with substantially all the rights and obligations of ownership are accounted for as finance leases. Such leases are valued at the present value of minimum lease payment, and recorded as assets under tangible assets. The assets are subsequently depreciated and the related liabilities are reduced by the amount of the lease payments less the effective interest expense. Other leases are accounted for as operating leases with lease payments recognised as an expense over the lease term.

Subsidiaries and investment in joint ventures

Subsidiaries and investment in joint ventures are valued at cost in the Company's accounts. The investments are valued at the cost of acquiring shares in the subsidiary or joint venture, provided that no write down is required. A write down to fair value will be carried out if the reduction in value is caused by circumstances which may not be regarded as incidental, and deemed necessary by generally accepted accounting principles. Write downs will be reversed when the cause of the initial write down is no longer present.

Foreign currency translation

Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into NOK using the exchange rate applicable on the balance sheet date. Non-monetary items that are measured at their historical price expressed in a foreign currency are translated into NOK using the exchange rate applicable on the transaction date. Non-monetary items that are measured at their fair value expressed in a foreign currency are translated at the exchange rate applicable on the balance sheet date. Changes to exchange rates are recognised in the income statement as they occur during the accounting period.

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

Research costs are expensed as they are incurred.

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

The Company recognises pre-funded revenue after the percentage of completion method. Late sale revenue is recognised when a valid licensing agreement is signed and the multi-client library data made accessible to the customer.

The Company amortises its multi-client library primarily based on the ratio between the cost of the surveys and the total forecasted sales for such surveys. Surveys are categorised into four amortisation categories with amortisation rates of 90%, 75%, 60% or 45% of sales amount. Classification of a project into a rate category is based on the ratio of its remaining net carrying value to its remaining sales estimate. Amortisation is recorded each time there has been a multi-client sale on surveys with a carrying value higher than zero.

The Company also applies minimum amortisation criteria for the library projects based on a three-year life. The three-year period is starting in the year after data delivery (year after completion). Under this policy, the book value of each survey is reduced to a specified percentage by each quarter end, based on the age of the survey. The calculation of minimum amortisation is recorded quarterly after amortisation of sales.

Inventories
Inventories are valued at the lower of cost or net selling price. The selling price is the estimated selling price in the case of ordinary operations minus the estimated completion, marketing and distribution costs. The cost is arrived at using the FIFO method and included the costs incurred in acquiring the goods and the costs of bringing the goods to their current state and location.

Trade and other receivables
Trade receivables and other current receivables are recorded in the balance sheet at nominal value less provisions for doubtful accounts. Provisions for doubtful accounts are based on an individual assessment of the different receivables.

Income tax
Tax expenses in the profit and loss accounts comprise of both tax payable for the accounting period and changes in deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax is calculated at 28 percent on the basis of existing temporary differences and the tax effect of tax losses carried forward. Temporary differences, both positive and negative, that will reverse within the same period, are recorded net. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilised.

Taxes payable and deferred taxes are recognised directly in equity to the extent that they relate to equity transactions.

Pensions
Defined benefit plans are valued at the present value of accrued future pension benefits at the balance sheet date. Pension plan assets are valued at their fair value.

Changes in the pension obligations due to changes in pension plans are recognised over the estimated average remaining service period.

The accumulated effect of changes in estimates and in financial and actuarial assumptions (actuarial gains and losses) that is less than 10% of the higher of defined benefit pension obligation and pension plan assets at the beginning of the year is not recognised. When the accumulated effect is above 10%, the excess amount is recognised in the income statement over the estimated average remaining service period. The net pension cost for the period is classified as employee expense.

Share based payments
Options for employees are valued at the fair value of the option at the time the option plan is adopted. The Black -Scholes model is used for valuation of options. The cost of the options is allocated over the period during which the employees earn the right to receive the option. This arrangement is reported as other paid-in capital in the balance sheet. Provisions are made for the employers national insurance contributions in connection with share option plan, which are related to the difference between the issue price and the market price of the share at year-end, on the basis of the vesting period of the program.

Provisions
Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions for loss on contracts are recognised when it is clear that the contract will result in a loss. The calculation is made by comparing the contracted revenues to the expected direct operating costs for the contract period.

Cash flow statement
The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other-short term investments.

NOTE 1 — CONTRACT SALES

Amounts in NOK 1 000	2010	2009
Geographical distribution		
Norway	**133 787**	161 489
Other countries	**288 819**	205 211
Total	**422 606**	**366 700**

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

NOTE 2 — GOVERNMENT GRANTS

In 2010 the Company did not receive any grants from the Norwegian Research Council (2009: 327). The grant is usually offset against the relevant expenses.

NOTE 3 — INVENTORIES

Amounts in NOK 1 000	2010	2009
Inventory type		
Equipment, components and parts	**44 367**	38 670
Anchors and batteries	**2 962**	4 538
Fuel	**2 394**	3 547
Total	**49 723**	**46 755**

NOTE 4 — OPERATING LEASES

Amounts in NOK 1 000	2010	2009
Operating leases recognised as expense in the period		
Charter hire	**166 335**	216 503
Office premises	**9 580**	10 157
Total	**175 915**	**226 660**

NOTE 5 — PENSIONS

The Company is required to have an occupational pension scheme in accordance with Norwegian law on required occupational pension. The Company's pension scheme meets the requirements of that law.

The pension scheme gives the right to defined future payments, which are mainly dependent on: number of years of employment, salary level at time of retirement and the amount of payment from the National Insurance office. The obligations are covered through an assurance company.

The actuarial assumptions are based on assumptions normally applied within the assurance industry.

The Management decided to implement changes in the defined benefit plan with effect from 1 September 2009. After 1 September 2009 the pension payment to retired employees is regulated according to the Norwegian Pension Law's minimum requirement each year, instead of regulation in accordance with Norwegian National Insurance's base amount as of May each year. In addition, the funded part in disability-, spouse- and child-pension was closed as of 1 September 2009. Hence, the Company do no longer pay a premium up-front for the future risk for the employees' potentially permanent occupational disability or death. The annual premium will cover the actual risk. These curtailments had an effect of - 15 236 on net pension obligation and -17 384 on the benefit expense (actuarial losses/gains are not included) in 2009.

The number of employees included in the plan is reduced from 138 in 2009 to 126 in 2010. From 1 September 2009 do employees that leave the Company before the age of retirement receive a paid-up policy. At the time of issuance of paid-up policies, the Company is relieved of any further obligations towards these people. The obligations are valued at the time of issuance of paid-up policies, and are derecognised from pension obligations and plan assets. This plan amendment has an effect of -10 466 on net pension obligation and -11 942 on the benefit expense (actuarial loss/gains are not included) in 2009.

Total actuarial loss/gain from the changes in 2009 had an effect of 10 186 on the benefit expense in 2009.

	2010	2009
Number of employees included in the defined benefit plan	**126**	138

Amounts in NOK 1 000	2010	2009
Accrued pension obligations at 31 December	**15 177**	14 383
Estimated effect of future salary increase	**17 307**	14 595
Estimated pension obligations at 31 December	**32 484**	**28 978**
Fair value of plan assets	**-17 813**	-15 235
Actuarial losses/(gains)	**11 430**	13 910
Social security tax	**3 680**	3 899
Net pension obligations	**29 782**	**31 552**
Current service cost	**8 611**	20 107
Interest cost	**1 275**	1 917
Expected return on plan assets	**-1 127**	-783
Administration fee	**238**	-
Amortisation of actuarial (gain)/loss	**-609**	112
Effect of curtailments and plan amendments	**-**	-19 140
Social security tax	**1 269**	2 995
Benefit expenses	**9 656**	**5 208**
Principal assumptions:		
Discount rate	**4.00 %**	4.40 %
Expected rate of return on pension plan assets	**5.40 %**	5.60 %
Expected future salary increases	**4.00 %**	4.25 %
Expected adjustments in National Insurance base rate	**3.75 %**	4.00 %
Expected rate of pension increase	**1.30 %**	1.30 %
Social security tax	**14.10 %**	14.10 %

NOTE 6 — REMUNERATION

The average number of employees during 2010 was 133.

Amounts in NOK 1 000	2010	2009
Wage costs:		
Salaries	**129 170**	143 879
Payroll tax	**17 831**	16 273
Pension costs	**9 656**	5 208
Other payments	**16 766**	16 922
Total	**173 423**	**182 282**

Executive Management remuneration

Amounts in NOK 1 000		Salaries	Bonus	Share options	Pension benefit	Other benefits	Total remuneration
Executive Management							
Roar Bekker, CEO	2010	3 432	-	1 390	114	281	**5 217**
Svein T. Knudsen, CFO	2010	1 834	-	804	91	133	**2 862**
Anette Mellbye, CLC	2010	1 680	-	479	121	27	**2 307**

Accrued bonuses for the Executive Management as of 31 December 2010 was 2 583.

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

Remuneration policy
All members of the Executive Management Group, including the CEO, have fixed salaries. In addition to the fixed salary, a bonus plan is in place. The bonus system is based on a combination of fulfilment of EMGS' goals and the individual goals. There are also car allowance agreements in place for most of the Executive Management Group and the Group is included in the Company's ordinary pension plan.

There are no other variable elements included in the remuneration for the Executive Management Group.

Board of Directors remuneration

Amounts in NOK 1 000	Directors' fee	Salaries	Share options	Pension benefit	Other benefits	Total remuneration
Board of Directors						
Bjarte H. Bruheim, Chairman of the Board	3 346	-	290	-	-	**3 636**
Chris Wright, Director (1 January - 13 June)	102	-	-	-	-	**102**
Jeffrey Harris, Director	-	-	-	-	-	**-**
Grethe Høiland, Director	184	-	-	-	-	**184**
Berit Svendsen, Director	245	-	-	-	-	**245**
Stig Eide Sivertsen (14 June - 31 December)	122	-	-	-	-	**122**
Cecilie Arentz, Employee's representative	-	597	32	47	169	**844**
Friedrich Roth, Employee's representative	-	805	53	60	9	**928**

The amounts listed under Directors' fee have been expensed in 2010.

Payment after termination
The Chairman of the Board is entitled to 1 year of pay after termination of contract.

Share based payment
The Company has an option program (please find more details about the program in the notes for the Group).

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

	Number of options OB	Granted options	Forfeited options	Terminated options	Exercised options	Cancelled options	Number of options CB	Weighted average exercise price B	Weighted average remaining contractual life
Executive Management									
Roar Bekker	675 000	250 000	-	-	-	-290 000	635 000	5.42	4.92
Svein T. Knudsen	585 000	150 000	-		-	-210 000	525 000	5.81	4.42
Anette Mellbye	170 000	100 000	-	-	-	-46 000	224 000	5.24	5.41
Board of Directors									
Bjarte H. Bruheim	355 000	-	-	-	-	-50 000	305 000	9.25	1.3
Cecilie Arentz	15 000	5 000	-	-	-	-	20 000	17.51	5.1
Friedrich Roth	20 000	30 000	-	-	-	-	50 000	5.17	6.0

A - average exercise price for options exercised during 2010.
B - average exercise price for number of options by 31 December 2010.

Loans and guarantees

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

Amounts in NOK 1 000	2010	2009
Auditor expenses		
Statutory audit services (excl. VAT)	**1 200**	1 000
Tax advisory services (excl. VAT)	**344**	1 301
Further assurance services	**761**	240
Other non-audit services	**66**	68
Total auditor expenses	**2 370**	**2 609**

NOTE 7 — TANGIBLE AND INTANGIBLE ASSETS

Amounts in NOK 1 000	Property, plant and equipment	Patents	Software licenses etc.	Multi-client library	Total
Acquisition cost at 1 January 2010	624 783	15 000	38 487	89 030	**767 300**
Purchases	43 343	-	5 018	62 940	**111 301**
Disposals	-90 782	-	-	-	**-90 782**
Acquisition cost at 31 December 2010	577 344	15 000	43 505	151 970	**787 819**
Accumulated depreciation 1 January 2010	435 798	11 500	25 005	89 030	**561 333**
Depreciation/amortisation for the year	97 075	1 500	8 484	25 209	**132 268**
Disposals	-92 079	-	-	-	**-92 079**
Accumulated depreciation 31 December 2010	440 794	13 000	33 489	114 239	**601 522**
Net carrying value 31 December 2010	136 550	2 000	10 016	37 731	**186 297**
Depreciation rate (%)	20-33	10	33	60	

Depreciation/amortisation of fixed assets is calculated using the straight-line method. The registered patents rights relates to electromagnetic surveys (EM).

Addition of self developed assets in 2010 amounted to 4 856 (2009: 6 582)

Finance leases are capitalised at the lease's commencement at the lower of the present value and cost. The leasing contracts have a duration of 3 years and the asset will be depreciated over a 3-5 year period. The terms of the agreements are 3 months NIBOR retroactive + 1,95% point.

Finance leases

Amounts in NOK 1 000	2010	2009
Capitalised in the balance sheet 31 December	**131 408**	121 054
Accumulated depreciation	**-87 618**	-63 568
Net carrying value	**43 790**	**57 486**
Depreciation	**24 050**	27 843

	2010		2009	
Amounts in NOK 1 000	Nominal value	Present value	Nominal value	Present value
Leases due within 12 months	**14 223**	**12 188**	25 758	23 560
Leases due within the next 13 - 36 months	**17 282**	**15 528**	28 271	24 626
Remaining debt on leasing contracts 31 December	**31 505**	**27 716**	**54 029**	**48 186**

Amounts in NOK 1 000	2010	2009
Specification of R&D expenses		
External expenses	**3 989**	1 695
Materials	**395**	346
Internal time	**15 066**	14 994
Research grants	**-**	-99
Total R&D expenses	**19 450**	**16 936**

The expenses are related to the further development of the EM-technology and have been expensed as incurred.

NOTE 8 — INCOME TAXES

Amounts in NOK 1 000	2010	2009
Taxes base specification		
Profit before tax	**-213 708**	-473 425
Permanent differences	**-5 817**	610
Changes in temporary differences	**-23 545**	62 151
Tax expenses abroad, paid	**1 167**	-7 795
Taxable profits before utilisation of unused tax losses	**-241 903**	**-418 459**
Group contribution received	**119**	-
Tax losses carried forward	**241 784**	418 459
Taxable profit (this year tax base)	**-**	-
Income tax expenses		
Non-creditable foreign income taxes	**-9 766**	-917
Total income tax expense	**-9 766**	**-917**
Temporary differences		
Fixed assets	**-142 985**	-119 248
Accounts receivable	**-**	-574
Provisions tax liability abroad	**-9 368**	-54 307
Pension obligations	**-29 782**	-31 552
Tax losses carried forward	**-1 350 714**	-1 108 930
Total temporary differences	**-1 532 849**	**-1 314 611**
Non-recognised deferred tax asset	**-429 198**	**-368 091**

Amounts in NOK 1 000	Tax base	28 % tax
Explanation why the tax is not 28% of income before tax		
28 % tax of income before tax	-213 708	-59 838
Permanent difference		-1 629
Other permanent difference (foreign income tax)		327
Group contribution		33
Change in deferred tax assets, not recognised		61 107
Non-creditable foreign income taxes		-9 766
Calculated tax		**-9 766**
Effective tax rate in %		4.6 %

Amounts in NOK 1 000	Amount	Applied	Rest
Tax loss carry forward			
2002	29 285	29 285	-
2003	6 332	6 332	-
2004	80 154	26 721	53 433
2005	23 099	-	23 099
2007	294 380	-	294 380
2008	319 560	-	319 560
2009	418 459	-	418 459
2010	241 784	-	241 784
Total	**1 413 052**	**62 338**	**1 350 714**

Unused tax losses can be carried forward indefinitely.

NOTE 9 — COLLATERALS

Long-term liabilities due in more than five years from December 31 2010 are 0.

Amounts in NOK 1 000	2010	2009
Collaterals		
Debts secured by pledge	**125 961**	107 585

Both the 2009 and 2010 the debt is a secured convertible loan from Fugro N. V bearing an interest at 7.00% p.a.

Amounts in NOK 1 000	2010	2009
Pledged assets		
Accounts receivable	**70 466**	-
Tangible and intangible assets	**186 297**	205 966
Inventory	**49 723**	46 755
Total carrying value of pledged assets	**306 487**	**252 721**

As per 31 December 2010 the total pledge is 101 557 (2009: 9 012).

The pledge against accounts receivable was released on 19 January 2011.

NOTE 10 — INVESTMENT IN SUBSIDIARIES

Company	Share ownership/ voting rights 2010	Profit/loss 2010	Equity 31 December 2010	Location
EMGS Americas 1 AS	100 %	157	239	Trondheim, Norway
EMGS Americas 2 AS	100 %	1	86	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	-572	-495	Trondheim, Norway
Serv. Geologicos Electromagneticos Do Brazil LTDA	99 %	-2 885	10 647	Rio de Janeiro, Brazil
Global emgs Nigeria Ltd	35 %	-997	-2 087	Lagos, Nigeria
EMGS Americas Inc	100 %	1 335	-8 117	Delaware, USA
EMGS Malaysia Sdn Bhd	1 %	-532	1 252	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100 %	1 399	1 559	Kuala Lumpur, Malaysia
EMGS International BV	100 %	-65	-274	Amsterdam, Holland
EMGS Australia Pty Ltd	100 %	217	350	Perth, Australia
EMGS AS	100 %	1	89	Trondheim, Norway
EMGS Shipping Mexico S. de R.L de C.V.	49 %	864	838	Col. Del Valle, Mexico
EMGS Sea Bed Logging Mexico S.A. de C.V.	100 %	1 424	1 402	Col. Del Valle, Mexico
EMGS Labuan Ltd	100 %	1 258	1 219	Labuan, Malaysia
Total		**1 604**	**6 708**	

NOTE 11 — ONGOING PROJECTS

Part of accounts receivable which is recognised in 2010, but not invoiced per 31 December 2010 amounts to 7 665. Deferred revenue as of 31 December 2010 amounts to 3 709.

The Company does not expect any loss on contracts in 2010.

NOTE 12 — RECEIVABLES

There has not been made any provision for doubtful receivables per 31 December 2010 (2009: 574)

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

Amounts in NOK 1 000	2010	2009
Intercompany balances with group companies		
Trade receivables	**-**	-
Other receivables	**75 772**	15 000
Total intercompany receivables	**75 772**	**15 000**
Short term liabilities	**-**	-
Total intercompany liabilities	**-**	**-**

NOTE 13 — BANK DEPOSITS

Restricted cash as of 31 December 2010.

Amounts in NOK 1 000	Short term	Long term	Total
Employee tax	5 089	-	5 089
Guarantees	55 050	40 273	95 323
Total restricted cash	**60 139**	**40 273**	**100 412**

NOTE 14 — SHARE CAPITAL AND SHAREHOLDER INFORMATION

As of 31 December, the Company's share capital consists of 153 824 261 shares at a par value of NOK 0.25, giving a total share capital of 38 456.

	Number of ordinary shares	Percentage
Number of shareholders		
Warburg Pincus	61 873 434	40.22 %
Odin Norge	7 506 324	4.88 %
Odin Offshore	3 860 000	2.51 %
DNB NOR SMB	3 667220	2.38 %
Sissener Sirius ASA	3 450 000	2.24 %
JP Morgen Chase Bank	2 799 798	1.82 %
Sundt AS	2 500 000	1.63 %
DNB NOR Navigator	2 170 123	1.41%
Toluma Norden AS	2 050 000	1.33 %
Bruheim, Bjarte Henry	2 000 088	1.30 %
Delphi Norge	1 750 000	1.14 %
Deutsche Bank AG London	1 335 284	0.87 %
Kommunal Landspensjonskasse	1 312 070	0.85 %
JPM BLSA	1 300 500	0.85 %
VPF Nordea Kapital	1 297 057	0.84 %
Sportsmagasinet AS	1 297 000	0.84 %
Caceis Bank Luxembourg	1 263 532	0.82 %
EM-SBL Holding AS	1 200 000	0.78 %
Statoil Pensjon	1 165 410	0.76 %
RBC Trust Company (Jersey) Limited	1 150 000	0.75 %
Others	48 876 421	31.78 %
Total	**153 824 261**	**100.00 %**

	Shares
Leading representatives of the Company hold the following shares	
CEO	130 000
Board of Directors	2 034 462

NOTE 15 — EQUITY

Amounts in NOK 1 000	Share capital	Share premium	Other paid-in capital	Other equity (uncovered loss)	Total
Equity 1 January 2010	**30 393**	**419 941**	**36 721**	**-294 129**	**192 926**
Share-based payments	-	-	10 883	-	**10 883**
Proceeds from private placement	8 000	206 000	-	-	**214 000**
Costs of private placement	-	-17 081	-	-	**-17 081**
Proceeds from options exercised	63	1 118	-	-	**1 180**
Profit for the year	-	-	-	-203 942	**-203 942**
Equity 31 December 2010	**38 456**	**609 978**	**47 604**	**-498 071**	**197 967**

NOTE 16 — FINANCIAL ITEMS

Amounts in NOK 1 000	2010	2009
Financial income		
Group contribution	**119**	-
Interest income on short term bank deposits	**1 188**	2 213
Foreign exchange rate gains	**19 857**	48 000
Total financial income	**21 164**	**50 213**
Financial costs		
Interest expense	**42 142**	27 148
Foreign exchange rate losses	**33 079**	52 523
Other financial expenses	**4 149**	64
Total financial costs	**79 370**	**79 734**
Net financial gain/(loss)	**-58 206**	**-29 521**

NOTE 17 — INTEREST IN A JOINT VENTURE

EMGS has a 40 % owner share and 50% voting share in KJT Inc, USA, a jointly controlled entity which has a technology for shallow water surveys.

Amounts in NOK 1 000	2010	2009
Total equity in the Company	**4 386**	-13 528
Net income for the year in the Company	**8 953**	-20 299
Net carrying value	**19 257**	19 257

In 2009 EMGS did an impairment of the value of KJT of 51 704.

NOTE 18 — LOANS

In July 2010 EMGS secured a USD 20 million bond bearing an interest at LIBOR + 8.00% p.a. The maturity date of the bond is 21 January 2014.

Fugro N.V provided EMGS a NOK 150 million secured convertible loan bearing an interest at 7.00% p.a in April 2009. The loan can at any time be converted into common shares in EMGS at the conversion price of NOK 5.40 until the maturity date on 2 January 2012.

On April 30 2009 EMGS secured a USD 5 million senior unsecured convertible bond bearing an interest at 9.00% p.a. The loan can at any time be converted into common shares in EMGS at the conversion price of USD 0.86 until the maturity date on 18 May 2011.

The economic components of the convertible bonds are:

a) a liability. On issuance of the convertible bond, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

b) an equity component. The residual of the proceeds is allocated to the conversion option that is recognised and calculated in shareholders' equity. The liability component was calculated first.

As a result of a breach of one of the covenants (equity ratio of more than 25% on the Group's balance sheet), the long term convertible loan is classified as current liability.

Amounts in NOK 1 000	Currency amount	Carrying value liability	Carrying value equity component	Interest rate	Term to maturity	Date of payment
Bond	USD 20 mill.	119 103	-	LIBOR + 8.0%	4.1 years	21 January 2014
Convertible loan	NOK 150 mill.	125 961	48 827	Fixed 7.0%	1 year	2 January 2012
Convertible loan	USD 5 mill.	29 553	1 039	Fixed 9.0%	4.5 months	18 May 2011

NOTE 19 — PROVISIONS

The Company recognises a provision for onerous contracts based on the vessel lease contracts on the vessels that are not used in production of the Company's services. EMGS ASA has calculated a best estimate of the net present value of future rental obligation based on the net charge of unavoidable lease payments on the non-operating vessels. For vessels that are sub-leased, the net amount of lease payments to the vessel owners and revenues from the sub-lease is recorded as a provision. As of 31 December 2010, total amount accrued was 4 535 (2009: 38 809).

Oslo, 23 March 2011

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen

Jeffrey Alan Harris

Grethe Høiland

Friedrich Roth

Cecilie Arentz

Roar Bekker
CEO

Ernst & Young

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Electromagnetic Geoservices ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements Electromagnetic Geoservices ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2010, the statements of income and cash flows for the year then ended as well as a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated balance sheet as at 31 December 2010, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

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

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

Auditor's responsibility

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

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

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

Opinion on the financial statements of the Parent Company

In our opinion, the financial statements of Electromagnetic Geoservices ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the Group

In our opinion, the financial statements of Electromagnetic Geoservices ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards on Accounting as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

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

Oslo, 23 March 2011
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

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