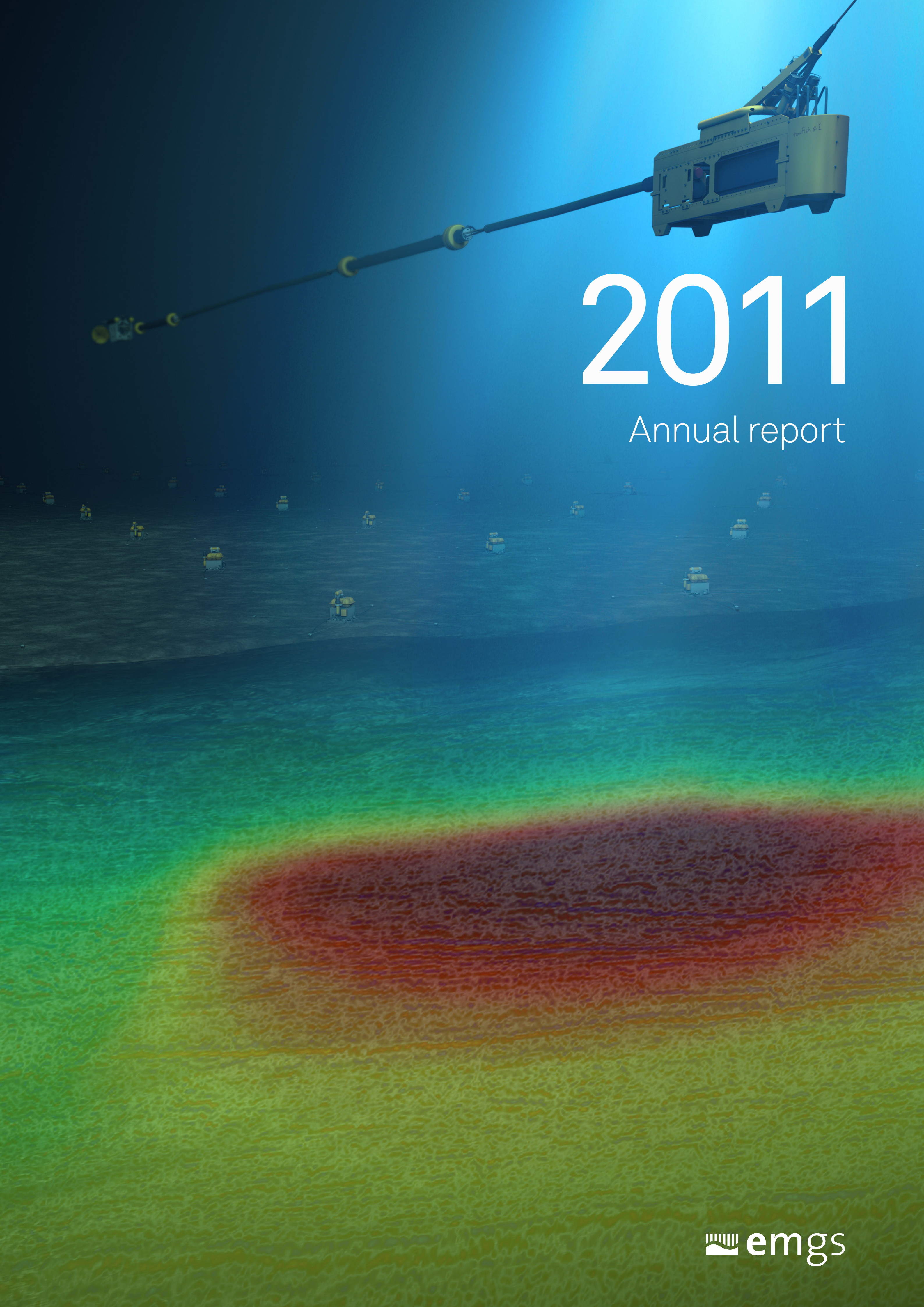
2011
Annual report
emgs

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 600 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, Stavanger and Oslo, Norway; Houston, USA; and Kuala Lumpur, Malaysia. Please visit www.emgs.com for more information.

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Directors' Report

Electromagnetic Geoservices ASA ("EMGS" or the "Company"), with 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 methods. Rather, it is complementary, as it provides oil companies with more information about the subsurface before drilling. Integrating EM data into the exploration workflow reduces exploration risk and costs.

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

EMGS has conducted more than 600 surveys to reduce exploration risk and improve drilling success rates across the world's mature and frontier basins in water depths ranging from 30 to 3500 m for more than 50 clients.

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), Cape Town (South Africa), Aberdeen (UK) 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 Group generated gross revenues of approximately United States dollars ("USD") 172.4 million in 2011, an increase of 129% over 2010, while the operating expenses increased by 47% to USD 147.3 million. EBITDA for 2011 improved significantly from 2010 to 2011, from negative USD 2.4 million to USD 41.8 million.

EMGS has during 2011 worked extensively to develop a new three-year strategy. The Company's overall objective is to build the EM market and to retain its number one position through technology leadership. EMGS's strategy for achieving this is to expand the application of 3D EM beyond traditional de-risking of drilling decisions and into areas like frontier scanning, shallow water applications, delineation and appraisal, as well as imaging of high resistive geological layers such as salt and basalt. Several measures have been put in place to accelerate adoption (get more customers to use EM data on a regular basis), increase penetration (get existing customers to use EM data more often), and build confidence in EM data. The Company has also adopted a demand-driven vessel strategy to achieve the right mix of long- and short-term vessel leases and increase capacity in-line with expected demand by proactively, but not aggressively, expanding the fleet.

In August 2011, EMGS announced the acquisition of OHM, a marine electromagnetic (EM) acquisition company. In-line with EMGS's strategy to build a flexible and scalable business without undue exposure, the two vessels OHM Leader and OHM Express (renamed the EM Leader and EM Express respectively) became available on a pay-per-use basis at short notice from Bergen and Singapore. This provides EMGS with capacity to quickly respond to market demand in Europe, Africa and the Asia Pacific region at substantially reduced steaming and mobilisation costs.

Significant events during 2011 included continuing work for PEMEX on the largest EM contract ever awarded, which, in combination with reduced technical downtime, underpinned the Company's strong operational performance. EMGS also successfully started a USD 90-million multi-client project in Brazil, which is pre-funded in full by Petrobras. The largest joint controlled-source electromagnetic (CSEM)–magnetotelluric (MT) survey was performed in the Red Sea for Saudi Aramco, a new national oil company customer. This survey is not designed to directly identify hydrocarbons, rather to provide a better understanding of the regional geology in an area of salt and volcanic rocks. Towards the end of 2011, EMGS embarked on a multi-client MT basalt mapping project which was pre-funded by ExxonMobil.

In December, EMGS and Schlumberger announced that they would enter into a cooperative agreement through which the parties will offer to the industry their respective expertise in the marine electromagnetic related fields of processing, advanced modelling and earth model building. Schlumberger immediately withdrew from the on-going patent disputes and the two parties entered into a cross-licence of patents relevant to the CSEM acquisition business. The agreement was signed and effective from 3 January 2012.

Public listing and capital increase

EMGS's stock was listed on the Oslo Stock Exchange throughout 2011. The listing took place on 30 March 2007.

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. 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 developed during 2011.

The Company does not have provisions in its articles of association that restrict the right to trade in the shares of EMGS. EMGS is not aware of agreements between shareholders which restrict the possibilities of trading in or exercising voting rights attached to shares or agreements the terms of which take effect, alter or terminate as a result of a takeover bid.

For further details regarding corporate governance, please see the section entitled Corporate Governance in this Annual Report.

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.

In 2011, EMGS's R&D expenditure was USD 4.1 million (2010: USD 2.8 million), most of which relates to personnel expenses. The Company capitalises certain R&D expenses in accordance with International Financial Reporting Standards ("IFRS").

Going concern

As of 31 December 2011, the carrying value of equity was USD 90.8 million.

In accordance with the Norwegian Accounting Act § 3-3a, we confirm that the financial statements have been prepared under the assumption of going concern. This assumption, which is based on income forecasts for the year 2012 and the Group's long-term strategic forecasts, is valid. The forecast for the year 2012 is based on a strengthened contract situation compared with 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, and the amount of spending by oil and gas companies. In recent years, the Company's customers and large oil and gas consuming nations have perceived a growing and potentially lasting imbalance between the supply of and demand for hydrocarbons. The demand for EM services increased in 2010 and 2011.

Revenues

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

Fleet status and utilisation

Currently, the Company has two long-term time charters for its purpose-built 3D EM vessels. These vessels operated for the whole of 2011. The Atlantic Guardian was mobilised in April 2011 and remained in operation for the remainder of 2011. The EM Express was mobilised for a multi-client survey in Norway in late November 2011 and remained in operation until the end of January 2012. The average number of vessels operated for EM surveys in 2011 was 2.7. Vessel utilisation for the full year 2011 came in at 82%, up from 73% in 2010.

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 affect the Group's operating results.

Seasonality

The Group previously experienced lower levels of revenue in the first and fourth quarters of each year compared with the second and third quarters, which were 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 2011, the first quarter revenue was low, but the other

quarters had high revenues, with record figures for the second and fourth quarters.

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 has seen this trend continuing into 2011. As a consequence of these changes, management has assessed the functional currency of the parent company to be NOK in 2011, a change from the 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

The year ending 31 December 2011 is compared below with the year ending 31 December 2010.

The Group prepares its accounts in accordance with IFRS, as adopted by EU.

Operating revenue
EMGS recorded revenues of USD 172.4 million for the year ending 31 December 2011 (2010: USD 75.4 million), an increase of 129%.

Total operating expenses
Operating expenses increased by 47% to USD 147.3 million for the year ending 31 December 2011 (2010: USD 100.3 million).

Charter hire, fuel and crew expenses (“charter costs”)
Charter costs were increased to USD 67.1 million in 2011 (2010: USD 32.9 million). This change is mainly due to an increase in the vessel fleet and activity level in 2011.

Employee expenses
Employee expenses in 2011 totalled USD 43.6 million (2010: USD 30.5 million). The number of employees at the end of 2011 was 264 (2010: 187).

Depreciation and amortisation
Depreciation and amortisation decreased to USD 13.0 million in 2011 (2010: USD 18.4 million). The reduction is due to assets becoming fully depreciated.

Multi-client amortisation
Amortisation of the multi-client library was USD 3.7 million in 2011 (2010: USD 4.1 million).

Other operating expenses
Other operating expenses in 2011 amounted to USD 19.9 million (2010: USD 14.5 million). The increase is mainly due to higher operational activity.

Financial income and expenses
Financial items for the year 2011 amounted to a negative USD 7.2 million (2010: negative USD 31.4 million). The loss in 2010 was attributed to a change in fair value of conversion rights with Fugro of negative USD 23.8 million. This loan was converted to shares in the second quarter of 2011.

Liquidity and capital resources

Cash flow from operations, investing and financing activities
Net cash provided by operating activities was USD 23.6 million for 2011 (2010: negative USD 36.3 million).

Net cash applied in investing activities for 2011 was USD 6.0 million (2010: USD 13.9 million). The principal components of these expenditures were related to purchase of property, plant and equipment and the multi-client library.

Net cash provided by financing activities for 2011 totalled USD 18.9 million (2010: USD 44.3 million). The most important components are (i) a bond loan raising USD 43.7 million and (ii) re-payment of bond loan amounting to USD 20 million.

Liquidity Requirements and Financing Facilities
The Group’s liquidity needs fluctuate from quarter to quarter depending, principally, on 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 2012.

Cash and cash equivalents, excluding restricted cash, totalled USD 57.8 million 31 December 2011 (2010: USD 21.3 million).

EMGS has one bond loan totalling USD 41.0 million as of 31 December 2011. In addition, EMGS has financial lease obligations of USD 3.3 million. The Group’s current debt as of 31 December 2011 constituted 45% of the Group’s total debt (2010: 76%). This reduction is mainly due to classification of convertible bonds as short term as a breach in covenants in 2010.

The Group’s financial position is sound and adequate enough to settle current debt as of 31 December 2011 with the Group’s most liquid assets.

Financial risk

Market 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 36% of its expenses in USD, including most of its current vessel, fuel and operational crew costs, while approximately 92% of its revenues are in USD. 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 seek to hedge such exposure in the future.

The Company has limited exposure to interest rate risk, as the interest risk exposure as a result of the bond loan has limited effects on the total financial risk.

Liquidity 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.

Credit risk

The Group considers that it has no significant concentration of credit risk. Its clients are major international, national and independent oil and gas companies, mostly with impeccable credit standings and histories. However, occasionally, a smaller oil and gas company may be on the client list and, in these cases, extraordinary caution is conducted in the credit evaluation. In 2011, EMGS did not experience any significant defaults in payments from customers.

The working environment and the employees

As at 31 December 2011, the Group had 264 employees, 42 of whom are employed at its regional office in Houston, USA, 18 of whom are employed at the regional office in Kuala Lumpur, Malaysia and 19 of whom are employed at the regional office in Stavanger, Norway. 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 2011.

The internal educational and training programme, "the EMGS Training Centre", continues to provide internal and external educational programmes. As a large number of 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 2011 was 1.1% (2010: 1.2%). The Company had no incidents that resulted in restricted work cases and no lost time injuries during 2011. 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. In 2011, one of the four members of the executive management was female. At the end of 2011, 19% (2010: 22%) of the Group's 264 employees was 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 the average workforce figure. This can 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 22 nations with a multitude of languages, cultures, ethnicities, religions and faiths. The Group uses English as the company language so that all employees can take part in communication.

The Group's aim is to have a workplace with no discrimination due to reduced functional ability and is actively working to design and implement the physical conditions so that as many people 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 possibilities for offering work to 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 to sea were reported in 2011.

Coverage of loss

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

Other equity	KNOK	- 34 338
Net loss coveraged	KNOK	- 34 338

The Company does not have distributable equity as of 31 December 2011.

Outlook

EMGS made substantial progress in 2011 and established a solid strategic platform to further develop the EM market. The company strengthened its financial position, maintained a strong backlog and secured flexible vessel capacity through the acquisition of OHM. Moreover, EMGS is hopeful that the collaborative agreement with Schlumberger will accelerate the industry's adoption of EM technology over the coming years.

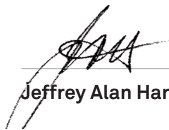
Subject to unforeseen adverse operational or market circumstances, EMGS currently plans to operate four vessels throughout 2012 and, as a consequence, expects to deliver annual revenue growth for the full financial year. Furthermore, the company is confident that it will maintain, and possibly improve, the record-high EBITDA margin it achieved in 2011.

Oslo, 21 March 2012

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen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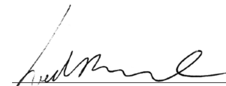
Grethe Høiland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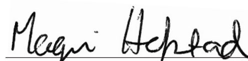

Magni Hofstad

Roar Bekker
CEO

Responsibility statement

Today the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' Report and the consolidated and separated annual financial statements for Electromagnetic Geoservices ASA ("EMGS" or the "Company"), for the year ended as of 31 December 2011.

EMGS's consolidated financial statements have been prepared in accordance with IFRS and IFRIC as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act, and that should be applied as of 31 December 2011. The separate financial statements for EMGS ASA have been prepared in accordance with Norwegian Accounting Act and Norwegian accounting standards as of 31 December 2011. The Board of Directors' report for the group and the parent company is in accordance with the requirements in the Norwegian Accounting standard no 16, as of 31 December 2011.

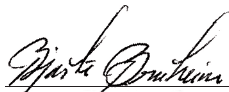
To the best of our knowledge:

- the consolidated and separate annual financial statements for 2011 have been prepared in accordance with applicable financial reporting standards

- the consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and profit/(loss) as a whole as of 31 December 2011 for the group and the parent company

- the Board of Directors' report for the group and the parent company includes a fair review of
  - the development and performance of the business and the position of the group and the parent company
  - the principal risks and uncertainties the group and the parent company face

Oslo, 21 March 2012



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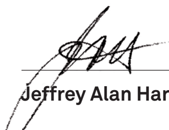

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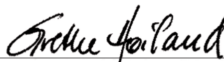

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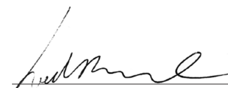

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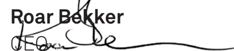


Roar Bekker
CEO

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 of 21 October 2010 and as amended on 20 October 2011. The Code of Practice is available on www.nues.no. 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 2011 for each section. Any deviations from the Code of Practice are addressed in relation to the relevant section. The Company is listed on the Oslo Stock Exchange and therefore also complies with the corporate governance requirements of exchange's rules for listed companies. The exchange's rules are available at www.ose.no.

In accordance with the Norwegian Accounting Act section 3-3b, EMGS is required to report annually to give an account of their principles and practices relating to corporate governance in the directors' report or a document referred to in the directors' report. EMGS refers to this document in the directors' report.

The Public Limited Liability Companies Act section 5-6 (4) requires that the ordinary general meeting deals with the Report on Corporate Governance. This report will therefore be presented to the general meeting to be held on 13 June 2012.

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 adopted an anti-corruption compliance program.

2. Business

EMGS is the market leader in electromagnetic (EM) imaging. Pursuant to section 3 of the Company's articles of association, the Company's purpose is:

"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 articles of association provide a definition of the scope of activity which ensures the shareholder's control with the business and its risk profile without interfering with the roles of the Board of Directors and the management.

3. Equity and dividends

As at 31 December 2011 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. 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.

In the annual general meeting held in 2011, the Board of Directors was given authorizations as described below regarding share capital increases and acquisition of own shares:

- The Board of Directors was given an authorization to increase the share capital by up to NOK 21,634,836 through one or more subscriptions, equal to an issuance of up to 86,539,344 new shares each with a par value of NOK 0.25. Further details are set out in the resolution by the annual general meeting, which states that the authorization shall be utilized in connection with potential acquisitions of companies or businesses within the oil and energy sector, including the oil service sector, and/or to finance general corporate purposes. The authorization is valid until 30 June 2012.

- The Board of Directors was given an authorization to increase the share capital by up to NOK 1,875,000 equal to an issuance of up to 7,500,000 new shares each with a par value of NOK 0.25. Further details are set out in the resolution by the annual general meeting, which states

that the authorization shall be utilized for fulfilling the Company's obligations towards holders of options, should such options be exercised. The authorization is valid until 30 June 2012.

- The Board of Directors was given an authorization to acquire shares in the Company. The maximum par value which can be acquired pursuant to the authorization is NOK 10,000,000. The minimum amount which may be paid for each share acquired pursuant to the authorization is NOK 0.25, and the maximum amount is NOK 50. Further details are set out in the resolution by the annual general meeting, which states that the shares are to be disposed of either as part of satisfying existing or future employee incentive schemes, as part of consideration payable for acquisitions made by the Company, as part of consideration for any mergers, demergers or acquisitions involving the Company, financing of general corporate purposes, by way of cancellation of the shares in part or full, or to raise funds for specific investments. The authorization is valid until 27 July 2012.

The Company does at the date of this report not own any treasury shares.

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 of Directors, 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 disclosed on the Company's website www.emgs.com, and the notice 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. According to section 9 of the articles of association, the Board of Directors may decide that the shareholders shall be able to participate in the general meeting by use of electronic aid, including that they may exercise their rights as shareholders electronically.

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 has evaluated the recommendation but decided that it was in the interest of the Company and the shareholders that the general meeting is chaired by the Chairman.

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 size of the Company and the ownership structure, EMGS has chosen not to have a nomination committee. It is the policy of the Board of Directors to review periodically the appropriateness of establishing such a committee. With effect from the annual general meeting in 2012 it will be proposed to establish a nomination committee.

8. 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 four board members are independent of major shareholders and the executive personnel. There are four men and three women serving as board members. Any proposal for the election of shareholder-appointed 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.

As at the date of this report the Board of Directors consists of the following:

- Bjarte Bruheim (chairman)
- Stig Eide Sivertsen
- Jeffrey Allan Harris
- Berit Svendsen
- Grethe Høiland
- Magni Hofstad (employee representative)
- Lodve Berre (employee representative)
- Marianne Bjørkhaug (deputy, employee representative)
- Arve Furunes (deputy, employee representative)

The shareholder-elected directors were appointed for a term of two years in the annual general meeting held in 2011. The employee representatives were appointed for a term of two years in an election held by the employees in 2011.

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 compensation committee to assist the Board of Directors. The committees of the Company are composed of board members.

As at the date of this report the audit committee consists of the following:

- Stig Eide Sivertsen
- Bjarte Bruheim

As at the date of this report the compensation committee consists of the following:

- Berit Svendsen
- Bjarte Bruheim
- Jeffrey Harris

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 risk.

EMGS's management conducts day-to-day follow-up of financial management and reporting. Management reports to the audit committee prior to publication of quarterly and annual reports. The audit committee assesses the integrity of EMGS's accounts. It also inquires into, on behalf of the Board of Directors, issues related to financial review, internal control, and external audit of EMGS's accounts. The Board of Directors ensures that EMGS is capable of producing reliable annual reports and that the external auditor's recommendations are given thorough attention.

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, except as described below, granted options to members of the Board of Directors after its shares were listed on the Oslo Stock Exchange. However, the Board of Directors proposed in its meeting 14 February 2012 that 250,000 options should be granted to the Chairman in connection with a grant of options to the employees in the Company. This grant was proposed on the basis that the Chairman performs services for the Company beyond the work directly related to his directorship. The grant of options to the Chairman will be proposed for approval by the annual general meeting to be held in 2012. The remaining options currently held by the Chairman were granted in 2006 (prior to the listing in March 2007), and will expire on 1 January 2014 (100,000 at NOK 5.77). The employee representatives on the Board, Lodve Berre (15,500 options) and Magni Hofstad (41,000 options) hold options, but these have been granted to them 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.

In accordance with the principles for compensation resolved by the extraordinary general meeting in the Company on 27 November 2007, the remuneration to the Board of Directors for 2011 is:

Bjarte Bruheim	USD 554 000
Jeffrey Harris	USD 0
Berit Svendsen	USD 40 000
Grethe Høiland	USD 30 000
Stig Eide Sivertsen	USD 40 000

Berit Svendsen received an additional USD 10 000 for work in the compensation committee in 2011. Stig Eide Sivertsen received an additional USD 10 000 for his work as chairman of the audit committee in 2011.

Bjarte Bruheim also served on the audit committee and the compensation committee, but does not receive compensation for this.

Jeffrey Harris was previously employed by the Warburg Pincus funds and according to their internal instructions he did not receive any compensation for his work for the Company. As Jeffrey Harris is no longer employed by the Warburg Pincus funds, it is proposed that he shall receive board compensation and compensation for his work in the compensation committee, in line with the other shareholder-elected directors with effect from 1 January 2012.

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 6 to the financial statements 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 is 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 do not contain any restrictions, limitations or defence mechanisms on acquiring the Company's shares. In accordance with the Securities Trading Act and the Code 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 external auditor annually presents a plan to the audit committee covering the main features for carrying out the audit. The external auditor participates in all meetings of the audit committee, the Board of Directors meeting that approves the annual financial statements and other meetings on request. The external auditor presents the result of the audit to the audit committee and the Board of Directors in the meeting dealing with the annual report, including presentation of any material changes in the Company's accounting principles, significant accounting estimates and report any material matters on which there has been disagreement between the external auditor and EMGS's executive management.

The external auditor annually presents to the audit committee, and when appropriate to the Board of Directors, internal control weaknesses and improvement opportunities. The Board of Directors holds a meeting with the auditor at least once a year, where neither the Chief Executive Officer nor the member of management are present.

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

The external 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 13 June 2012 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 2012

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's individual performance. The year-end performance bonus is capped to 40 percent of the Basic Salary, and the maximum is specified in the individual employment contract for each employee. In addition, the Board of Directors 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 held in 2011, it was resolved to authorize the Board to issue a maximum of 10,000,000 options over three years under the employee option program to employees (not only management), and that the maximum outstanding options shall not at any time exceed 7.5% of the registered number of shares in the Company. The total number of outstanding options as at 31 December 2011 was 5,107,000. In a Board meeting on 14 February 2012, the Board decided to grant 4,520,000 new stock options to employees in accordance with the existing option program. In connection with said grant, the Board proposed that 250,000 options be granted to the Chairman of the Board, on the basis that he performs services for the Company beyond the work directly related to his directorship.

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

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

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

1.2 Determination of Remuneration

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 2012 and until the Annual General Meeting for 2012 in 2013, although adjustments may be made.

In the current performance bonus system the variable benefits 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 vesting period is 4 years. In the Annual General Meeting held in 2011, it was resolved to authorize the Board to issue a maximum of 10,000,000 options over three years under the employee option program to employees (not only management), and that the maximum outstanding options shall not at any time exceed 7.5% of the registered number of shares in the Company.

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

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

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

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

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

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

2. Executive management wages in subsidiaries of EMGS

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

3. Review of the executive management remuneration policy that has been carried out in the financial year 2011

The remuneration policies set out in the declaration on determination of salary and other compensation to the CEO and other executive management for 2011 were followed in all respects for the year 2011.

4. Review of the effects for the Company and its shareholders of agreements on Remuneration entered into or amended in the financial year 2011

The Company entered into an agreement with the Chairman, Bjarte Bruheim, which was approved by the Extraordinary General Meeting on 27 November 2007. This agreement is deemed to have been beneficial for the Company. The agreement was amended in 2010 to include a severance right of 12 months earnings in line with the other managers in the Company. The agreement has not been amended in 2011.

Oslo 21 March 2012

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

Electromagnetic Geoservices Group

Consolidated income statement

Year ended 31 December

Amounts in USD 1 000	Note	2011	2010
Operating revenues			
Contract sales	6	**162 904**	64 073
Multi-client sales	6, 16	**9 510**	11 335
Total operating revenues		**172 414**	**75 408**
Operating expenses			
Charter hire, fuel and crew expenses	7	**67 105**	32 856
Employee expenses	8	**43 572**	30 451
Depreciation and ordinary amortisation	16, 17	**13 019**	18 431
Multi-client amortisation	16	**3 675**	4 083
Other operating expenses	9, 10	**19 904**	14 456
Total operating expenses		**147 275**	**100 277**
Operating profit/(loss)		**25 139**	**-24 869**
Financial income and expenses			
Interest income	11	**221**	201
Interest expenses	11	**-6 516**	-7 587
Change in fair value of conversion rights	11, 24	**-1 353**	-23 754
Net foreign currency income/(loss)	11	**475**	-267
Net financial items		**-7 173**	**-31 407**
Income/(loss) before income tax		**17 966**	**-56 276**
Income tax expense	12	**7 813**	-1 068
Income/(loss) for the year		**10 153**	**-55 208**
Basic income/(loss) per share (result for the year/shares) in USD	32	**0.06**	**-0.40**
Diluted income/(loss) per share (EPS) in USD	32	**0.05**	**-0.40**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2011	2010
Income/(loss) for the year		**10 153**	**-55 208**
Exchange differences on translation of foreign operations		**-4 256**	46
Total comprehensive income/(loss) for the year		**5 897**	**-55 162**

Electromagnetic Geoservices Group

Consolidated statement of financial position

As at 31 December

Amounts in USD 1 000	Note	2011	2010
ASSETS			
Non-current assets			
Goodwill	5	**14 422**	-
Intangible assets	16	**10 652**	7 827
Property, plant and equipment	17	**20 615**	23 104
Assets under construction	17	**14 275**	9 085
Interest in joint venture	19	**-**	3 015
Restricted cash	22	**590**	7 326
Total non-current assets		**60 554**	**50 357**
Current assets			
Spare parts, fuel, anchors and batteries	20	**9 733**	9 293
Trade receivables	21	**27 761**	20 640
Other receivables	18	**6 207**	4 459
Cash and cash equivalents	22	**57 796**	21 340
Restricted cash	22	**16 553**	10 884
Total current assets		**118 050**	**66 615**
Total assets		**178 604**	**116 972**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital, share premium and other paid in equity	14	**265 027**	182 381
Other reserves		**-4 428**	-172
Retained earnings		**-169 836**	-179 988
Total equity		**90 763**	**2 222**
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	23	**5 051**	5 085
Non-current tax liability		**580**	-
Borrowings	24	**43 022**	22 989
Total non-current liabilities		**48 653**	28 074
Current liabilities			
Trade payables	25	**14 276**	12 752
Current tax liabilities	13	**7 082**	948
Provisions	26	**-**	774
Other short term liabilities	27	**16 552**	12 980
Borrowings	24	**1 278**	59 223
Total current liabilities		**39 188**	86 677
Total liabilities		**87 841**	114 751
Total equity and liabilities		**178 604**	116 972

Electromagnetic Geoservices Group

Consolidated statement of cash flows

Year ended 31 December

Amounts in USD 1 000	Note	2011	2010
Net cash flow from operating activities:			
Income/(loss) before income tax		**17 966**	-56 276
Adjustments for:			
Depreciation and ordinary amortisation	16, 17	**13 019**	18 431
Multi-client amortisation	16	**3 675**	4 083
Profit on sale of fixed asset		**-**	115
Non-cash portion of pension expenses		**-35**	-377
Cost of share-based payments		**497**	1 793
Change in trade receivables		**-7 121**	-10 710
Change in inventories		**-440**	-1 146
Change in trade payables		**1 525**	-1 818
Change in other working capital		**-9 113**	-20 058
Taxes paid		**-6 137**	1 128
Withholding tax expenses		**4 459**	-1 160
Change of fair value of conversion rights		**-**	23 754
Amortisation of interest		**5 262**	5 965
Net cash flow from operating activities		**23 557**	**-36 276**
Investing activities:			
Purchases of property, plant and equipment		**-3 226**	-3 347
Purchases of intangible assets		**-6**	-834
Proceeds from sale of assets		**-**	286
Investment in multi-client library		**-2 741**	-9 979
Cash used in investing activities		**-5 973**	**-13 874**
Financial activities:			
Financial lease payments-principal and interest		**-2 099**	-3 931
Payment of bond		**-20 400**	-
Proceeds from bonds		**43 721**	20 000
Proceeds from issuance of ordinary shares	14	**1 872**	30 849
Payment of interest on bonds		**-4 222**	-2 660
Cash provided by financial activities		**18 872**	**44 258**
Net increase in cash		**36 456**	**-5 892**
Cash balance beginning of period		**21 340**	27 232
Cash balance end of period		**57 796**	21 340
Increase in cash		**36 456**	**-5 892**
Interest paid		**-4 568**	-3 324
Interest received		**221**	201

Electromagnetic Geoservices Group

Consolidated statement of changes in equity

Attributable to equity holders of the Company

Amounts in USD 1 000	Note	Share capital, share premium and other paid-in equity	Other reserves	Retained earnings	Total equity
Balance at 1 January 2010		**149 739**	**-218**	**-124 780**	**24 741**
Currency translation differences		-	46	-	**46**
Income/(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	14	33 564	-	-	**33 564**
Share-based payment	14	1 793	-	-	**1 793**
Cost of rights issue	14	-2 715	-	-	**-2 715**
Balance at 31 December 2010		**182 381**	**-172**	**-179 988**	**2 222**
Currency translation differences		-	-4 256	-	**-4 256**
Income/(loss) for the year		-	-	10 153	**10 153**
Total comprehensive income		-	-4 256	10 153	**5 897**
Proceeds from shares issued - private placement and options exercised	14	1 856	-	-	**1 856**
Proceeds from shares issued - purchase of subsidiary	14	19 198	-	-	**19 198**
Equity component of convertible loan	14	30 498	-	-	**30 498**
Share-based payment	14	497	-	-	**497**
Conversion of convertible loans	14	30 598	-	-	**30 598**
Balance at 31 December 2011		**265 027**	**-4 428**	**-169 836**	**90 763**

Notes

Note 1 — Corporate information

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

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

These consolidated financial statements have been approved for issue by the Board of Directors and the Chief Executive Officer on 21 March 2012.

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 differs 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 Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Non-controlling interests are measured at the proportionate share of the acquirees identifiable assets. Acquisition costs incurred are expensed and included in other operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether the assets or liabilities of the acquiree are assigned to those units.

2.4 Interest in a joint venture
The Group had an interest in a joint venture which was a jointly controlled entity, whereby the ventures had a contractual arrangement that established joint control over the economic activities of the entity. The Group recognised 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 was included in the carrying amount of the investment and was not amortised. The income statement reflected the share of results of operation of the joint venture, including amortisation of excess values and impairment losses. At each reporting date the Group evaluated whether there are identifiable indications that the investment may be impaired. If there were such indications, the recoverable amount of the investment was estimated in order to determine the extent of the impairment loss (if any). Where there had been a change recognised directly in equity of the joint venture, the Group recognised its share of any changes and discloses this, when applicable, in the statement of changes in equity. Adjustments were 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 were 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 was used until the date on which the Group ceases to have joint control over the joint venture.

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

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

The consolidated financial statements are presented in US Dollars (USD) which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

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

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

All resulting exchange differences are recognised in other comprehensive income.

2.6 Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable for services in the ordinary course of the Group's activities. Revenue is shown net of withholding and value-added taxes 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

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

The Group recognises pre-funded revenue using the percentage of completion method. Progress is measured by reference to the percentage of vessel operational hours incurred to date versus the total estimated vessel operational hours for the project, provided that all other revenue recognition criteria are satisfied.

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

(c) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the carrying amount is reduced to the recoverable amount, calculated as the estimated future cash flows

discounted using the original effective interest rate of the instrument. The discount continues to be unwound as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.7 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 repairs and maintenance are expensed as incurred.

Depreciation on assets is calculated using the straight-line method. The assets are depreciated over their estimated useful life, adjusted for any estimated residual values.

Useful life:		
Machinery and equipment *	3 - 8	years
Cluster **	5	years
Hardware equipment and furniture	3 - 5	years

* Machinery and equipment are mainly placed on board the vessel. Parts of the equipment are underwater during operation and have a shorter 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 2.10).

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 finite or indefinite.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and method are reviewed at least every financial year end.
Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.

(a) Patents
Patents have a finite useful life and are recorded at historical cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives (10-15 years). Administrative costs associated with patents are expensed as incurred.

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

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

Costs associated with maintaining computer software are expensed as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the Group, which are expected to generate

economic benefits in excess of cost (beyond one year) are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful life, not to exceed three years.

(c) Research and development costs
Research costs are expensed as incurred. Development expenditure on individual projects is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset, 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
The multi-client library consists of surveys of electromagnetic data. The surveys can be licensed to customers on a non-exclusive basis. Directly attributable costs associated with the production and development of multi-client projects such as acquisition costs, processing costs, and direct project costs are capitalised.

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

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

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 are classified in different categories, dependent on the financial assets nature and the purpose for the acquisition. The Groups financial assets include cash and short term deposits, trade and other receivables, and are classified as loan and 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 reorganization, and where observable data indicate that there is a measurable decrease in the estimated cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.13 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.

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

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

(a) 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. According to the loan agreements, the convertible loans could at any time be converted into common shares in EMGS. The USD 5 mill convertible loan was converted into shares in March 2011, and the NOK 150 mill convertible loan was converted into shares in April 2011. See Note 24 for further details.

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 in the countries where the Group operates and generates taxable income.

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

(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. 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 of 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 15.

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 fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

(a) Operating leases:
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) Finance leases:
The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

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

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

2.18 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 2011:
· IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
· IAS 32 Financial instruments: Presentation (amendment) effective 1 February 2010
· Changes in IFRIC 14 (to IAS 19) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction effective 1 January 2011
· IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010
· Improvements to IFRSs (May 2010)

IAS 24 Related Party Transactions (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definition of a related party. The new definitions emphasis a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial instruments: Presentation (amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights and issues and certain options or warrants as equity instruments. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

Changes in IFRIC 14 (to IAS 19) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
As a result of the amendments entities with a minimum funding requirement of a pension scheme will be able to treat prepayments in a defined benefit plan as an economic benefit. After the change these prepayments will qualify to recognize in the statement of financial position. The adoption of the changes did not have any impact on the financial position or performance of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
The Interpretation provides guidance on the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The issue of an entity's equity instruments to a creditor is consideration paid and should be measured at fair value. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss. The adoption of the IFRIC did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs
In May 2010, the IASB issued its third 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 improvements did not have any impact on the accounting policies, financial position or performance of the Group.

2.21 Future changes in accounting policies
Certain new standards, amendments and interpretations of existing standards that have been published and are mandatory for the Group's accounting periods beginning on 1 January 2012 or later periods, but which the Group has not adopted early, are as follows:

· IFRS 7 New disclosures for derecognition of financial instruments – effective for annual periods beginning on or after 1 July 2011.
· IFRS 7 New disclosures – Offsetting of Financial Assets and Financial Liabilities –– effective for annual periods beginning on or after 1 July 2011.
· IFRS 9 Financial instruments –– effective for annual periods beginning on or after 1 January 2015.
· IFRS 10 Consolidated Financial Statements - effective for annual periods beginning on or after 1 January 2013.

- IFRS 11 Joint Arrangements - effective for annual periods beginning on or after 1 January 2013.
- IFRS 12 Disclosure of Interest in Other Entities - effective for annual periods beginning on or after 1 January 2013.
- IFRS 13 Fair value measurement - effective for annual periods beginning on or after 1 January 2013.
- IAS 12 Income tax - effective for annual periods beginning on or after 1 January 2012.
- IAS 27 Revised: Separate Financial Statements - effective for annual periods beginning on or after 1 January 2013.
- IAS 28 Revised: Investments in Associates and Joint Ventures - effective for annual periods beginning on or after 1 January 2013.
- IAS 1 Amendment: Presentation of Items of Other Comprehensive Income - effective for annual periods beginning on or after 1 July 2012.
- IAS 32 Amendment: Offsetting of Financial Assets and Financial Liabilities - effective for annual periods beginning on or after 1 January 2014.

These standards, amendments and interpretations are not expected to have any material impact on the financial position of the Group.

- IAS 19 Amendment: Employee Benefits - effective for annual periods beginning on or after 1 July 2013.

After the amendments made in 2011, IAS 19 eliminates the option to defer the recognition of gains and losses, known as the 'corridor method'. Changes in estimates of post-employment benefit obligations are now to be presented in other comprehensive income (OCI) in the period they occur. Furthermore, the amendment sets out that the employee benefit costs are to be separated between profit and loss and other income and expenses. Expected returns on plan assets are to be calculated using the discount rate used to measure the pension obligation. The current service cost and the net interest cost are to be presented in profit and loss, while "remeasurements" such as changes in estimates are to be presented in other income and expenses in the statement of comprehensive income. Furthermore, the disclosure requirements related to defined benefit plans have been changed. The group has estimated net cumulative unrecognised actuarial gains as of 31 December 2012 of 454 which will be recorded in equity.

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 2011 or 2010.

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

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

The sensitivity analysis in the following sections relate to the position as at 31 December 2011 and 2010. The sensitivity analysis have been prepared on the basis that the amount of net debt and the portion of financial instruments in foreign currencies are all constant.

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

The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risk. This is based on the financial assets and financial liabilities held at 31 December 2011 and 2010.

(i) Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group's convertible bonds that were converted in 2011 had fixed interest rates.

With all other variables held constant, for every one-percentage point hypothetical increase in NIBOR, the Group's annual net interest expense on variable debt, including finance leases, will increase by approximately 250 at 31 December 2011.

(ii) Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group operates internationally and therefore has exposure to foreign exchange risk arising from transactions executed in other currencies than the functional currency of each company. EMGS ASA changed its functional currency from USD to NOK in 2011, hence the foreign currency risks has changed from primarily with respect to NOK in 2010 to USD in 2011 in EMGS ASA. Approximately 92% of the Group's sales are denominated in USD, whilst approximately 36% 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 in USD rate	Increase/ decrease NOK rate	Effect on income/(loss) before tax
2011	+20%		8 545
	-20%		-8 545
2010		+20%	4 894
		-20%	-7 341

(b) Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and cash and cash equivalents). See Note 21 for aging analysis of trade receivables.

(i) Trade receivables
The Group trades with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. Although one major customer amounted to a significant part of 2011 sales, this customer was a large international oil company, 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, EMGS feels confident in reaching the revenue forecast necessary for a stable liquidity.

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

Amounts in USD 1 000	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
Year ended 31 December 2011						
Interest bearing loans and borrowings	-	-	-	40 996	-	**40 996**
Trade and other payables	-	37 910	-	580	-	**38 490**
Other financial liabilities	-	1 278	1 285	741	-	**3 304**
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	1 171	1 481	-	**4 734**

See Note 24 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 2011 and 31 December 2010.

The Group monitors its capital structure on the basis of a total equity to total assets ratio. As of 31 December 2011 this ratio was 51% (2010:2%). It is the Group's policy that the said ratio shall be above 50% during its current growth phase.

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 2011 is 5 051 (2010: 5 085). Additional information is disclosed in Note 23.

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.

Acquisitions
The management is required to allocate the purchase price to the assets acquired and liabilities assumed based on their estimated fair values for acquired companies. The Group has engaged independent valuation specialists to determine the purchase price allocation of OHM Surveys Holding AS.

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

The purchased intangible assets include charter hire agreements and goodwill. The management's estimate of fair value is 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 2.8 d).

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

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.

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 2011 are 73 481 (2010: 79 557).

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 2011, the carrying amount of capitalised development costs is 1 611 (2010: 1 575).

Change in functional currency of EMGS ASA
Due to development in how the operations in the Group was organised, the transactions in EMGS was from 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 changed from USD to NOK as of 1 January 2011. The reporting currency for the Group continued to be USD.

The change in functional currency had 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 was re-classified from current liabilities to equity. In addition, the USD 5 million convertible bond was subject to fair value adjustment and the fair value of the conversion right will be recorded as current liabilities. See Note 24 for further details.

Note 5 — Business combination

On 31 August, EMGS entered into an agreement to acquire 100% of the shares in OHM Surveys Holding AS (OHM), a marine electromagnetic acquisition company, for 15 750 in a stock-for-stock transaction. The transaction resulted in the issue of 8 305 369 shares in EMGS to the sellers at a subscription price of NOK 10,43 per share.

The acquisition was completed 9 September for a purchase price of 19 198 . The difference between the price agreed in the stock-for-stock transaction (15 750) and the purchase price (19 198) is mainly caused by increased share price from NOK 10,43 to NOK 12,60 at the closing date.

Purchase price allocation:

Amounts in USD 1 000	Recognised values at acquisition	Adjustment of fair value	Carrying amount prior to acquisition
Intangible assets excluding goodwill	**2 321**	**1 990**	331
Fixed assets	**65**	**-1 894**	1 959
Cash and cash equivalents	**1 777**	**-**	1 777
Other assets	**3 617**	**-**	3 617
Other liabilities	**-3 004**	**-140**	-2 864
Net identifiable assets and liabilties	**4 776**	**-44**	4 820
Goodwill upon acquisition	**14 422**		
Total	**19 198**		

The fair value of intangible assets excluding goodwill at the time of acquisition was 2 321. This is the calculated fair value of the lease agreements for the two vessels EM Leader and EM Express with Euro Trans Skips AS. The lease agreements were a part of the acquistion of OHM. The vessels will, at no standby cost, be ready to mobilise on 3-, 6- or 12-month

charters over the course of the next 42 months (EM Leader) and 30 months (EM Express). These intangible assets are depreciated over the charter periods (42 and 30 months).

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

Acquisition costs incurred (423) are expensed and included in other operating expenses.

The consolidated financial statements include the results of OHM from the closing date of the acquistion (9 September) to 31 December. Net loss consolidated for this period is 550.

Pro forma figures have not been drawn up for the period from 1 January 2011 to the date of acquisition, 9 September 2011, because the figures are considered insignificant in the context of the consolidated accounts.

Note 6 — Segment

For management purposes, the Group is organised into one reportable segment. The Group offers EM services, and the sale contracts and costs are incurred worldwide.

The Group uses a patented electromagnetic survey method to find hydrocarbons in offshore reservoirs. The Group's services help oil and gas companies to improve their exploration success rates.

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

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

The customers are international oil companies and the risk and profitability 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	2011	2010
Europe, Middle East and Africa	**49 921**	35 248
North and South America	**117 900**	20 226
Asia and the Pacific Ocean	**4 593**	19 935
Total	**172 414**	**75 409**

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

One single expternal customer amounted to 10% or more of the Group's total revenues in 2011 (three single external customers in 2010). Total revenues from this customer were in 2011 106 392 (for 2010: 19 919, 12 951 and 8 917).

Note 7 — Charter hire, fuel and crew expenses

Amounts in USD 1 000	2011	2010
Charter hire and crew expenses	**32 693**	29 037
Fuel	**8 968**	4 787
Agent fee	**8 754**	2 438
Witholding tax cost	**2 578**	1 081
Capitalization of MC Costs (MC)	**-2 297**	-11 294
Paten Disputes	**366**	-2 249
Other external services	**16 044**	9 056
Total charter hire, fuel and crew expenses	**67 105**	**32 856**

Charter hire and crew expenses included provisions for onerous contracts in 2010, see Note 26.

Note 8 — Employee expense

Amounts in USD 1 000	2011	2010
Employee expense		
Salaries	**33 637**	21 354
Social Security tax	**4 351**	3 383
Pension costs (Note 23)	**1 542**	1 597
Other payments	**3 563**	2 323
Cost of share based payment (Note 15)	**479**	1 793
Total employee expense	**43 572**	**30 450**
Compensation of key management personnel of the Group		
Salary	**1 523**	1 149
Bonus paid in the year	**643**	-
Share options	**123**	442
Pension benefits	**90**	54
Other benefits	**572**	73
Total management remuneration	**2 951**	**1 718**

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

Note 9 — Other operating expenses

Amounts in USD 1 000	2011	2010
Rental and housing expenses	**3 636**	3 283
Consumables and maintenance	**2 116**	1 434
Consultancy fees *	**6 139**	4 148
Travel expenses	**2 882**	2 221
Insurance	**774**	723
Loss on trade receivable	**310**	71
Marketing	**1 074**	644
Other operating expenses	**2 973**	1 932
Total other operating expenses	**19 904**	**14 456**
*** Fees to auditor included in consultancy fees:**		
Statutory audit services	**242**	217
Further assurance services	**80**	57
Tax advisory services	**267**	177
Other non-audit services	**16**	15
Total fees to auditor	**604**	**466**

Note 10 — Research and development costs

Research and development costs consist of 4 149 (2010:2 803) charged to the income statement as part of operating expenses and 20 (2010: 333) of amortisation of previously capitalised development costs.

Note 11 — Financial items

Amounts in USD 1 000	2011	2010
Financial income:		
Interest income on short term bank deposits	**221**	201
Foreign exchange gains related to loans and receivables	**7 424**	1 800
Foreign exchange gains related to liabilities at amortised cost	**5 117**	126
Total financial income	**12 762**	**2 127**
Financial expenses:		
Interest expense on financial leases and bank borrowings	**433**	1 437
Interest expense on convertible bonds	**5 699**	5 448
Change in fair value of conversion rights	**1 353**	23 754
Foreign exchange losses related to loans and receivables	**12 066**	2 193
Other financial expenses	**384**	702
Total financial costs	**19 935**	**33 534**
Net financial items	**-7 173**	**-31 407**

The exchange rate effects are related to borrowings denominated in USD and accounts receivables and trade payables in USD in EMGS ASA, and accounts receivables and trade payables in NOK in other group companies in 2011.

In 2010 the exchange rate effects were related to borrowings denominated in NOK, accounts receivables and trade payables in NOK.

Note 12 — Income tax expense

Amounts in USD 1 000	2011	2010
Current tax	**7 813**	-1 068
Total income tax expense	**7 813**	**-1 068**

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	2011	2010
Income/(Loss) before tax	**17 966**	-56 276
Tax at the domestic rate of 28%	**5 030**	-15 757
Non-deductible expenses and other	**1 046**	-185
Change in deferred tax asset, not recognised	**-6 076**	15 942
Foreign income taxes	**7 813**	-1 068
Tax charge	**7 813**	**-1 068**

Note 13 — Deferred tax

Amounts in USD 1 000	2011	2010
Deferred taxes detailed		
Property, plant and equipment	**-5 947**	-7 156
Pension obligations	**-1 414**	-1 424
Accrued foreign income taxes and other accruals	**-207**	-448
Loss carried forward	**-65 912**	-70 529
Total deferred tax (asset)/liability	**-73 481**	**-79 557**
Non-recognised deferred tax assets	**73 481**	**79 557**
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 2011 and 2010.

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 2011 and 2010.

The current tax liabilities of 7 082 mainly consist of accruals of taxes in Mexico (4 642), Brazil (1 404) and Canada (605).

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

Amounts in USD 1 000	Number of shares	Ordinary share capital	Share premium	Other paid-in capital	Total
At 1 January 2009	**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 1 January 2011	**153 824 261**	**5 340**	**168 970**	**8 071**	**182 381**
Equity component of convertible loan	-	-	30 661	-163	**30 498**
Proceeds from shares issued - purchase of subsidiary	8 305 368	381	18 817	-	**19 198**
Proceeds from options exercised	1 720 200	75	1 781	-	**1 856**
Share-based payment	-	-	-	497	**497**
Conversion of convertible loans	33 591 733	1 523	29 075	-	**30 598**
At 31 December 2011	**197 441 562**	**7 319**	**249 303**	**8 405**	**265 027**

See Note 24 for further details regarding equity component and conversion of convertible loans.

At the private placement issue in January 2010 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 2010 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 250 004 507 (2010: 195 144 017) 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 2011 were as follows:

	Number of ordinary shares	Percentage
Shareholders		
Warburg Pincus	41 873 434	21.21 %
Fugro Norway AS	27 777 778	14.07 %
Odin Norge	7 749 424	3.92 %
Odin Offshore	5 770 518	2.92 %
JP Morgan Clearing Corp.	3 863 100	1.96 %
Skandinaviska Enskilda Banken	3 771 630	1.91 %
Euro Trans Skips AS	3 559 444	1.80 %
UBS Securities LLC	2 995 824	1.52 %
DNB Nor SMB	2 850 000	1.44 %
UBS AG, London Branch	2 682 520	1.36 %
JP Morgan Chase Bank	2 613 629	1.32 %
Tveteraas Eiendomsselskap AS	2 500 000	1.27 %
VPF Nordea Kapital	2 306 281	1.17 %
Delphi Norge	2 300 000	1.16 %
Statoil Pensjon	2 290 248	1.16 %
Sundt AS	2 250 000	1.14 %
Bjarte H. Bruheim	2 205 088	1.12 %
Skagen Vekst	2 185 079	1.11 %
Verdipapirfondet DNB Navigator	2 045 801	1.04 %
BLKRCK GLBL Smallcap FD	1 955 829	0.99 %
Others	71 895 935	36.41 %
Total	**197 441 562**	**100.00 %**

Note 15 — 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	2011	2010
Expense arising from share based options	**497**	1 793

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 2011 and 2010:

	2011	2010
Expected volatility	**60 %**	60 %
Risk free interest rate	**2.19 %**	2.79 %
Expected life of options (years)	**4**	4
Weighted average share price (USD)	**1.76**	0.98

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:

	2011		2010	
	Average exercise price in USD per share	**Options**	Average exercise price in USD per share	Options
At 1 January	**1.05**	**7 196 200**	**3.26**	**6 678 200**
Granted	**1.76**	**240 000**	0.98	3 260 000
Forfeited	**-**	**-**	-	-
Exercised	**1.03**	**1 720 200**	0.81	250 000
Terminated	**0.94**	**446 000**	2.13	654 000
Lapsed	**1.83**	**163 000**	3.22	16 000
Cancelled	**-**	**-**	5.13	1 822 000
At 31 December	**1.00**	**5 107 000**	**1.05**	**7 196 200**
Exercisable at 31 December	**1.03**	**2 556 000**	**1.32**	**1 824 000**

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

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 5.12	**106 000**
2016	0.73	**1 907 000**
2017	0.94 and 0.99	**3 025 000**
		7 196 200

2011

	In USD per share	**Options**
2012		**-**
2013	2.25 and 4.34	**47 500**
2014	0.96	**1 131 500**
2015	3.34, 5 and 6.67	**60 000**
2016	0.71	**1 316 000**
2017	0.92 and 0.96	**2 352 000**
2018	1.73 and 1.95	**200 000**
		5 107 000

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 is 4.39 years (2010: 4.93 years).

The weighted average fair value of options granted during the year was USD 0.77 (2010: 0.47).

Note 16 — Intangible assets and goodwill

Amounts in USD 1 000	Software and licenses	Lease agreements EM Leader and EM Express	Patents	Multi-client library	Total	Goodwill
At 1 January 2010						
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**	**-**	**2 862**	-
Year ended 31 December 2010						
Opening carrying value	2 479	-	383	-	**2 862**	-
Additions	28	-	-	9 979	**10 007**	-
Transferred from assets under construction to intangible assets	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**	**-**
Year ended 31 December 2011						
Opening carrying value	1 715	-	216	5 896	**7 827**	-
Additions	163	2 321	1 905	2 741	**7 130**	14 422
Transferred from assets under construction to intangible assets	981	-	-	-	**981**	-
Amortisation charge	-922	-251	-273	-3 675	**-5 121**	-
Translation differences	-157	-	-111	103	**-165**	-
Closing carrying value	**1 780**	**2 070**	**1 737**	**5 065**	**10 652**	14 422
At 31 December 2011						
Accumulated cost	9 022	2 321	3 578	29 609	**44 530**	14 422
Translation differences accumulated cost	-316	-	-172	-626	**-1 114**	-
Accumulated amortisation	-7 085	-251	-1 730	-24 647	**-33 713**	-
Translation differences accumulated amortisation	159	-	61	729	**949**	-
Net carrying value	**1 780**	**2 070**	**1 737**	**5 065**	**10 652**	**14 422**

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 2011 or 2010. Multi-client revenue recognised in 2011 amounted to 9 510 (2010: 11 335).

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

See Note 5 for further description of lease agreements for EM Leader and EM Express.

	Estimated useful lives
Patents	10-15 years
Software and licenses	3 years
Lease agreements	2.5-3.5 years

Impairment test of goodwill

The Group performed its annual impairment test as at 31 December 2011. Goodwill has not been allocated since there is only one CGU. The recoverable amount has been determined based on the fair value of the equity for the Group, which is based on the share price at 31 December 2011 of 438 195 . The book value of equity is 90 763. No impairment charge has been made.

Note 17 — Property, plant and equipment and assets under construction

Amounts in USD 1 000	Machinery and equipment	Hardware and furniture	Cluster	**Total**	Assets under construction
At 1 January 2010					
Accumulated cost	69 326	13 437	8 502	**91 265**	10 553
Accumulated depreciation	-45 346	-9 285	-4 517	**-59 148**	-
Net carrying value	**23 979**	**4 152**	**3 985**	**32 117**	**10 553**
Year ended 31 December 2010					
Opening carrying value	23 979	4 152	3 985	**32 116**	10 553
Additions	635	920	1 424	**2 979**	3 717
Transfer from asset under construction to property, plant and equipment	4 385	-	-	**4 385**	-5 185
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**	**9 085**
At 31 December 2010					
Accumulated cost	72 269	14 357	9 926	**96 552**	9 085
Accumulated depreciation	-55 294	-11 965	-6 189	**-73 448**	-
Net carrying value	**16 975**	**2 392**	**3 737**	**23 104**	**9 085**
Year ended 31 December 2011					
Opening carrying value	16 975	2 392	3 737	**23 104**	9 085
Additions	4 285	2 056	25	**6 366**	8 851
Transfer from asset under construction to property, plant and equipment	2 680	-	-	**2 680**	-3 661
Depreciation charge	-8 389	-1 610	-1 574	**-11 573**	-
Translation differences	221	-192	9	**38**	-
Closing carrying value	**15 772**	**2 646**	**2 197**	**20 615**	**14 275**
At 31 December 2011					
Accumulated cost	79 234	16 413	9 951	**105 598**	14 275
Translation differences accumulated cost	-1 563	-822	-227	**-2 612**	-
Accumulated depreciation	-63 683	-13 575	-7 763	**-85 021**	-
Translation differences accumulated depreciaton	1 784	630	236	**2 650**	-
Net carrying value	**15 772**	**2 646**	**2 197**	**20 615**	**14 275**

Finance leasing included in property, plant and equipment:

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**
2011				
Cost of capitalised finance leases	4 846	8 235	9 950	**23 031**
Accumulated depreciation	-2 907	-7 342	-7 677	**-17 926**
Net carrying value	**1 939**	**893**	**2 273**	**5 105**

The amount of property, plant & equipment pledged as security for liabilities has a net carrying value of 20 615 as of 31 December 2011 (2010: 23 104).

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

Note 18 — Other receivables

Amounts in USD 1 000	2011	2010
Prepayments	**3 113**	2 690
Receivables VAT	**1 291**	-621
Deferred mobilisation expenses	**1 659**	1 446
Other receivables	**143**	943
Total other receivables	**6 207**	**4 458**

Note 19 — Interest in a joint venture

In February 2011, EMGS sold its shares in KJT. EMGS entered into a license agreement for the KJT IP portfolio and used the shares in KJT as part of the consideration.

The Group had a 40% interest and owned 50% of the voting shares in KJT Inc as of 31 December 2010, 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 as of 31 December 2010:

Share of the joint venture's balance sheet:

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

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

Note 20 — Spare parts, fuel, anchors and batteries

Amounts in USD 1 000	2011	2010
Equipment components and parts, at cost	**6 583**	7 611
Anchors and batteries, at cost	**1 577**	943
Fuel, at cost	**1 573**	739
Total spare parts, fuel, anchors and batteries	**9 733**	**9 293**

Inventory items expensed during 2011 amounted to 10 839 (2010: 8 051) and are included as components of operating expenses.

Note 21 — Trade receivables

Amounts in USD 1 000	2011	2010
Accounts receivable	**2 817**	10 804
Accrued revenues	**24 944**	9 836
Total trade receivables	**27 761**	**20 640**

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 2011 EMGS did not find it necessary to make any provision for doubtful trade receivables (2010: 0).

Movements in the provision for doubtful receivables are as follows:

Amounts in USD 1 000	2011	2010
At 1 January	**-**	**-99**
Charge for the year	**-**	-
Amounts written off	**-**	99
At 31 December	**-**	**-**

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
2011	**2 817**	**1 896**	**-**	**128**	**-**	**-**	**793**
2010	10 804	6 942	3 058	5	57	-	742

Note 22 — Cash and cash equivalents

Amounts in USD 1 000	2011	2010
Cash	**57 796**	21 340
Restricted cash current	**16 553**	10 884
Restricted cash non-current	**590**	7 326
Total cash and cash equivalents	**74 939**	**39 550**

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

Note 23 — Employee benefit obligations

The Company operates a defined benefit plan. The number of employees included as of year end is 150 in 2011 and 126 in 2010. The plan only includes employees employed in Norway.

Amounts in USD 1 000	2011	2010
Balance sheet obligations for:		
Pension obligations	**5 051**	5 085
Income statement charge for:		
Pension obligations	**1 542**	1 597

Pension benefit obligation:

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

Amounts in USD 1 000	2011	2010
Defined benefit obligation	**8 335**	5 900
Fair value of plan assets	**-3 738**	-3 042
	4 598	**2 858**
Unrecognised actuarial gain (loss)	**454**	2 227
Liability in the balance sheet	**5 051**	**5 085**

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

Amounts in USD 1 000	2011	2010
Beginning of the year	**5 900**	5 352
Exchange differences	**-103**	4
Current service cost	**1 364**	1 424
Interest cost	**231**	211
Actuarial losses/(gains)	**933**	-1 055
Social security tax	**11**	-36
End of the year	**8 335**	**5 900**

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

Amounts in USD 1 000	2011	2010
Beginning of the year	**3 042**	2 637
Expected return on plan assets	**205**	186
Actuarial (losses)/gains	**-609**	-1 377
Exchange differences	**-175**	-62
Employer contributions	**1 276**	1 657
End of year	**3 738**	**3 042**

The amounts recognised in the income statement are as follows:

Amounts in USD 1 000	2011	2010
Current service cost	**1 364**	1 424
Interest cost	**231**	211
Expected return on plan assets	**-205**	-186
Amortisation of actuarial (gain)/loss	**-82**	-101
Social security tax	**201**	210
Administration fee	**33**	39
Net benefit expense	**1 542**	**1 597**

The principal actuarial assumptions used are as follows:

	2011	2010
Discount rate	**2.60 %**	4.00 %
Expected rate of return on plan assets*	**4.10 %**	5.40 %
Expected future salary increases	**3.50 %**	4.00 %
Expected rate of pension increases	**3.25 %**	3.75 %
Expected rate of regulation of pensions under payment	**0.10 %**	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 2010 was 5.70%.

The change in actuarial assumptions in 2011 is in accordance with guidance published by the Norwegian Accounting Standards Board in January 2012.

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:

	2011	2010
Shares	**10.40 %**	15.10 %
Bonds and money market	**36.90 %**	32.80 %
Hold to maturity bonds	**33.40 %**	33.70 %
Real estate	**18.00 %**	16.80 %
Other	**1.30 %**	1.60 %
Total	**100.00 %**	**100.00 %**

Expected contributions to the defined benefit plan for the year ending 31 December 2012 are 1 236.

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

Amounts in USD 1 000	2011	2010	2009	2008	2007
As at 31 December					
Defined benefit obligation	**8 335**	5 900	5 352	9 677	7 821
Plan assets	**3 738**	3 042	2 637	2 605	3 681
Deficit/(surplus)	**4 598**	**2 858**	**2 714**	**7 072**	**4 140**
Actuarial gains on plan liabilities	**-466**	-1 507	-3 374	-434	978
Actuarial gains on plan assets	**616**	1 416	-20	1 469	45

Note 24 — Borrowings

Amounts in USD 1 000	Interest rate	Maturity	2011	2010
Non-current				
NOK 250 000 000 bond	3 month NIBOR + 7.00%	26 May 2014	**40 996**	-
USD 20 000 000 bond	LIBOR + 8.00%	21 January 2014	**-**	20 337
Finance lease liabilities	3 month NIBOR + 3.50% and 7.6%	2-3 years	**2 026**	2 652
Total			**43 022**	**22 989**
Current				
NOK 150 000 000 convertible bond	7.0%	2 January 2012	**-**	52 169
USD 5 000 000 convertible bond	9.0%	18 May 2011	**-**	4 972
Finance lease liabilities	3 month NIBOR + 3.50% and 7.6%	Up to 1 year	**1 278**	2 082
Total			**1 278**	**59 223**
Total borrowings			**44 300**	**82 212**

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 provided EMGS a NOK 150 000 000 secured convertible loan bearing an interest at 7.00% p.a in April 2009. The loan was converted into 27 777 778 common shares in EMGS at the conversion price of NOK 5.40 in April 2011. This resulted in an increase in equity of 23 877.

As the functional currency in EMGS was USD in 2010 and the conversion price for the Fugro convertible loan was in NOK, the loan could not 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 contained an embedded derivative and the Group therefore had 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 in 2010 were:
(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 therefore calculated the fair value of the put option in 2010. The fair value of the derivative at the disbursement date was 7 563 and subsequent changes in fair value were charged to the income statement. At 31 December 2010 the fair value was estimated to 30 661 resulting in a financial loss in the income statement in 2010 of 23 754.

The residual, an additional liability component, was measured at amortised cost using the effective interest rate method. As of end December 2010, the value of this component amounted to 21 508.

EMGS changed its functional currency from USD to NOK as of 1 January 2011. The change in functional currency had a significant impact on the value of the conversion rights recorded in the balance sheet. The 30 661 fair value of the conversion right was re-classified from current liabilities to equity.

The NOK 150 000 000 convertible bond was 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 was classified as a current liability in 2010. The bondholder had given a waiver where the fair value adjustment is excluded from the equity ratio calculation.

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 was converted into 5 813 954 common shares in EMGS at the conversion price of USD 0.86 in March 2011. This resulted in an increase in equity of 6 721.

The USD 5 000 000 convertible bond had a fixed exchange rate for the conversion right in 2011, hence it was denominated in USD. The loan could 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 in 2010 were:
(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 none-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 4 972. The equity component, the carrying amount of the conversion option, was estimated to 163 at inception and was not remeasured in subsequent periods.

As a result of the change in functional currency in EMGS from USD to NOK 1 January 2011, the USD 5 million bond was subject to fair value adjustment. The fair value of the conversion right (6 967) was recorded as a liability, and the equity

component was reclassified. Subsequent changes in fair value until the conversion of the loan of 1 353 was charged to the income statement in 2011.

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

USD 20 000 000 bond
On 19 July 2010, EMGS secured a USD 20 million bond bearing an interest at LIBOR + 8.00% p.a. The bond was repaid in May 2011.

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

NOK 250 000 000 bond
On 26 May 2011, EMGS secured a NOK 250 million bond bearing an interest at 3 months NIBOR + 7.00% p.a.

The bond is unsecured.

The exposure of the Group's borrowings to interest rate changes related to floating rate obligations and the contractual repricing dates of those obligations at the balance sheet dates are as follows:

Amounts in USD 1 000	2011	2010
6 months or less	**44 300**	25 071
6-12 months	**-**	-
1-5 years	**-**	-
Over 5 years	**-**	-
Total	**44 300**	25 071

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	2011	2010
Between 1 and 3 years	**1 873**	2 336
Between 3 and 5 years	**41 149**	20 653
Over 5 years	**-**	-
Total	**43 022**	22 989

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

Amounts in USD 1 000	Carrying amounts		Fair values	
	2011	2010	2011	2010
NOK 250 000 000 bond	**40 996**	-	**40 996**	-
USD 20 000 000 bond	**-**	20 337	**-**	20 337
Leasing liabilities	**2 026**	2 652	**2 026**	2 652

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	2011	2010
USD denominated	-	25 309
NOK denominated	**44 300**	56 903
Total	**44 300**	82 212

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

	2011		2010	
	NOK	USD	NOK	USD
Leasing liabilities	**8.41 %**		8.38 %	
NOK 250 000 000 bond	**12.38 %**			
NOK 150 000 000 convertible bond			6.42 %	
USD 5 000 000 convertible bond				3.43 %
USD 20 000 000 bond				2.27 %

Note 25 — Trade payables

Trade payables are generally non-interest bearing and on 30 days payment terms. Fair value of the payables equals the nominal value of 14 276 (2010: 12 752).

Note 26 — 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 no onerous contracts as per 31 December 2011 (2010: 744).

Note 27 — Other short term liabilities

Amounts in USD 1 000	2011	2010
Accrued expenses	**8 405**	7 045
Holiday pay	**2 415**	1 591
Social security taxes and other public duties	**2 969**	2 490
Other short term liabilities	**2 761**	1 855
Total other short term liabilities	**16 552**	**12 980**

Accrued expenses are generally on 30 days payment terms.

Note 28 — Finance lease obligations

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

Amounts in USD 1 000	2011	2010
Finance lease liabilities – minimum lease payments:		
No later than 1 year	**1 487**	2 412
After 1 year and no more than 5 years	**2 201**	2 909
After more than 5 years	**-**	-
Total minimum lease payments	**3 688**	**5 321**
Future finance charges on finance leases	**-384**	-588
Present value of finance lease liabilities	**3 304**	**4 733**
The present value of finance lease liabilities is as follows:		
No later than 1 year	**1 280**	2 081
After 1 year and no more than 5 years	**2 024**	2 651
After more than 5 years	**-**	-
Total present value of finance lease liabilities	**3 304**	**4 733**
Contract terms regarding property rights at expiration of the contract:		
The ownership will be negotiated at the end of the leasing period.		

Note 29 — Contingencies

The Group has contingent liabilities in respect of 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	2011	2010
Office premises rental guarantees	**590**	900
Guarantees on client contracts	**15 634**	16 442
Total guarantees	**16 224**	**17 341**

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 30 — Commitments

Operating lease commitments:

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

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

Amounts in USD 1 000	2011	2010
No later than 1 year	**28 811**	21 652
After 1 year and no more than 5 years	**27 540**	46 459
After more than 5 years	**270**	-
Total operating lease commitments	**56 621**	**68 111**

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	2011	2010
Charter hire	**27 770**	33 049
Office premises	**2 504**	2 292
Total	**30 274**	**35 341**

Note 31 — 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 patent (EP 1256019) which was subject to the Opposition in the European Patent Office, successfully overcame that Opposition at the final appeal level on 13 December 2011.
- On 15 December 2011, it was announced that Schlumberger will immediately withdraw from the patent disputes in the United Kingdom, The Netherlands and the European Patent Office.

No accruals are made for the legal proccedings as of 31 December 2011.

Note 32 — Earnings/(loss) per share

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

Amounts in USD 1 000	2011	2010
Income/(loss) attributable to equity holders of the Company	**10 153**	-55 208
Basic earnings per share	**0.06**	**-0.40**
Diluted earnings per share	**0.05**	**-0.40**
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands)	**182 222**	137 044
Effect of dilutive potential shares:		
Share options	**2 548**	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands)	**184 770**	137 044

The Company has one category of dilutive potential ordinary shares; share options (in 2010: two categories; share options and convertible bonds). In 2010 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 33 — Related party transactions

The Company has an agreement with BKCCA Oilfield Services de Mexico S.A. de C.V. (BKCCA). BKCCA is an active local partner for EMGS in Mexico and provides a range of marketing and administrative services in relation to the Company's 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 agreement was renewed in 2012, and BKCAA will receive 5% commission on future contracts with Pemex obtained by the Company.

The following transactions were carried out with related parties:

Amounts in USD 1 000	2011	2010
Purchases of goods and services		
BKCCA	**7 447**	1 394

Year end balances arising from purchases of goods:

Amounts in USD 1 000	2011	2010
Payables to related parties:		
BKCCA	**2 621**	609

Note 34 — Investment in subsidiaries

Company	Share ownership/ voting rights 2011	Share ownership/ voting rights 2010	Equity 31 Dec 2011	Equity 31 Dec 2010	Location
EMGS Americas 1 AS	100 %	100 %	-467	41	Trondheim, Norway
EMGS Americas 2 AS	100 %	100 %	15	15	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	100 %	44	-85	Trondheim, Norway
Servicos Geologicos Electromagneticos Do Brasil LTDA	100 %	100 %	3 091	1 818	Rio de Janeiro, Brasil
EMGS Americas Inc	100 %	100 %	-1 975	-1 386	Delaware, USA
EMGS International B.V.	100 %	100 %	-60	-47	Amsterdam, Holland
Electromagnetic Geoservices Malaysia Sdn Bhd	1 %	1 %	75	213	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100 %	100 %	36	266	Kuala Lumpur, Malaysia
Global EMGS Nigeria Ltd	35 %	35 %	-251	-356	Lagos, Nigeria
EMGS Australia Pty Ltd	100 %	100 %	83	60	Perth, Australia
EMGS Global AS	100 %	100 %	2 011	15	Trondheim, Norway
EMGS Sea Bed Logging Mexico S.A. de C.V.	100 %	100 %	16 328	239	Col. Del Valle, Mexico
EMGS Shipping Mexico S. de R.L. de C.V.	49 %	49 %	-448	143	Col. Del Valle, Mexico
emgs Services Mexico S.A. de C.V.	99%	-	-12	-	Col. Del Valle, Mexico
EMGS Labuan Ltd	100 %	100 %	682	208	Labuan, Malaysia
EMGS Geophysical Limited	100 %	100 %	-	-	Nicosia, Cyprus
EMGS Global Services (Cyprus) Limited	100 %	100 %	-	-	Nicosia, Cyprus
EMGS MCL Limited	100 %	100 %	-	-	Nicosia, Cyprus
EMGS Surveys AS	100 %	-	13 847	-	Trondheim, Norway
Ohm Ltd	100 %	-	1 819	-	Aberdeen, United Kingdom
Ohm Surveys SDN BHD	100 %	-	153	-	Kuala Lumpur, 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.

Electromagnetic Geoservices ASA

Income statement

Year ended 31 December

Amounts in NOK 1 000	Note	2011	2010
Operating revenues			
Contract sales	1, 11	**741 718**	349 561
Multi-client sales	1, 11	**47 931**	73 045
Total operating revenues		**762 649**	**422 606**
Operating expenses			
Charter hire, fuel and crew expenses	4	**337 916**	186 018
Employee expenses	5, 6	**227 684**	173 423
Depreciation and ordinary amortisation	7	**72 375**	107 058
Multi-client amortisation	7	**20 506**	25 209
Other operating expenses	6	**116 817**	88 588
Total operating expenses		**775 298**	**580 297**
Operating income		**-12 649**	**-157 692**
Financial income and expenses			
Financial income	16	**51 541**	21 164
Financial expenses	16	**73 055**	79 370
Net financial items		**-21 514**	**-58 206**
Joint venture		**-**	**2 190**
Income (loss) before tax		**-34 163**	**-213 708**
Income tax expenses	8	**175**	-9 766
Net income (loss) for the year		**-34 338**	**-203 942**
For information:			
Dividend		**-**	-

Electromagnetic Geoservices ASA

Balance sheet

As at 31 December

Amounts in NOK 1 000	Note	2011	2010
Non-current assets			
Intangible assets	7, 9	**54 603**	49 747
Property, plant and equipment	7, 9	**122 743**	136 550
Assets under construction		**84 785**	52 061
Investments in subsidiaries	10	**117 566**	6 884
Interest in joint ventures	17	**-**	19 257
Restricted cash	13	**3 538**	42 907
Total non-current assets		**383 235**	**307 406**
Current assets			
Spareparts, fuel, anchors and batteries	3	**48 442**	49 723
Trade receivables	9, 11, 12	**34 534**	70 466
Receivables group companies	12	**105 632**	75 772
Other receivables		**34 019**	32 568
Cash and cash equivalents	13	**197 887**	75 870
Restricted cash	13	**99 197**	63 740
Total current assets		**519 710**	**368 139**
Total assets		**902 945**	**675 545**

Electromagnetic Geoservices ASA

Balance sheet

As at 31 December

Amounts in NOK 1 000	Note	2011	2010
Equity			
Paid-in capital			
Share capital	14, 15	**49 360**	38 456
Share premium	14, 15	**874 538**	609 978
Other paid-in capital	14, 15	**50 383**	47 604
Total paid-in capital		**974 281**	**696 038**
Retained earnings			
Other equity (uncovered loss)	15	**-532 409**	-498 071
Total retained earnings		**-532 409**	**-498 071**
Total equity		**441 872**	**197 967**
Liabilities			
Non-current liabilities			
Employee benefit obligations	5	**30 267**	29 782
Borrowings	7, 9, 18	**257 808**	134 631
Total non-current liabilities		**288 075**	**164 413**
Current liabilities			
Trade payable		**80 774**	69 605
Current tax liability	8	**4 697**	4 833
Public taxes and duties payable		**19 637**	16 465
Provisions	19	**-**	4 535
Other current liabilities		**60 220**	50 024
Borrowings	9	**7 669**	167 703
Total current liabilities		**172 997**	**313 165**
Total liabilities		**461 072**	**477 578**
Total equity and liabilities		**902 945**	**675 545**

Electromagnetic Geoservices ASA

Cash flow statement

Year ended 31 December

Amounts in NOK 1 000	2011	2010
A) Cash flow from operating activities		
Funds sourced from operations *)	**91 196**	-29 812
Changes in inventories, accounts receivable and accounts payable	**48 382**	-91 012
Changes in other accrual items	**-20 321**	-31 951
Net cash flow from operating activities	**119 256**	**-152 775**
B) Cash flow from investing activities		
Purchase of property, plant and equipment	**-105 238**	-111 302
Disposal property, plant and equipment	**-**	-439
Interest in joint ventures	**-**	-1 550
Net cash flow from investing activities	**-105 238**	**-113 291**
C) Cash flow from financial activities		
Proceeds from debt raised (long- and short term)	**4 015**	2 087
Reduction of long term debt	**-116 907**	-22 556
Proceeds from equity paid-in	**10 606**	198 102
Proceeds from bond offering	**241 424**	123 532
Payment of interest on bonds and financial leases	**-35 052**	-15 835
Net cash flow from financial activities	**104 086**	**285 330**
A+B+C) Net change in cash and cash equivalents	**118 105**	19 264
Cash and cash equivalents at 01.01	**182 517**	163 253
Cash and cash equivalents at 31.12	**300 622**	**182 517**
Calculation of cash and cash equivalents		
Cash and cash equivalents	**197 887**	75 870
Restricted cash	**102 735**	106 647
Cash and cash equivalents at 31.12	**300 622**	**182 517**
***) Calculation of funds sourced from operations**		
Net profit (loss) before income taxes	**-34 163**	-213 708
Depreciation and amortisation	**92 881**	132 268
Income tax expense	**-175**	9 766
Option cost	**2 780**	10 883
Amortisation of interest	**29 872**	31 837
Profit (loss) disposal property, plant and equipment	**-**	-858
Funds sourced from operations	**91 196**	**-29 812**

Notes

Accounting principles

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

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

Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition costs incurred are expensed and included in other operating expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether the assets or liabilities of the acquire are assigned to those units.

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

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

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

Subsidiaries 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 — Operating revenues

Amounts in NOK 1 000	2011	2010
Geographical distribution		
Norway	**101 590**	133 787
Other countries	**661 060**	288 819
Total	**762 649**	**422 606**

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

Note 2 — Business combination

On 31 August, EMGS entered into an agreement to acquire OHM Surveys Holding AS (OHM), a marine electromagnetic acquisition company, for 86 625 in a stock-for-stock transaction. The transaction resulted in the issue of 8,305,369 shares in EMGS to the sellers at a subscription price of NOK 10.43 per share.

The acquisition was completed 9 September for a purchase price of 104 648 . The difference between the price agreed in the stock-for-stock transaction (86 625) and the purchase price (104 648) is caused by increased share price from NOK 10.43 to NOK 12.60 at the closing date.

Amounts in NOK 1 000	Recognised values at aqcuisition	Adjustment of fair value	Carrying amount prior to acquisition
Intangible assets excluding goodwill	12 652	10 847	1 804
Fixed assets	354	-10 324	10 678
Cash and cash equivalents	9 688	-	9 688
Other assets	19 715	-	19 715
Other liabilities	-16 374	-762	-15 613
Net identifiable assets and liabilties	**26 035**	**-238**	**26 273**
Goodwill upon acquisition	78 613		
Total	**104 648**		

The fair value of intangible assets excluding goodwill at the time of acquisition was 12 652. This is the calculated fair value of the lease agreements for the two vessels EM Leader and EM Express with Euro Trans Skips AS. The lease agreements were a part of the acquistion of OHM. The vessels will, at no standby cost, be ready to mobilise on 3-, 6- or 12-month charters over the course of the next 42 months (EM Leader) and 30 months (EM Express). These intangible assets are depreciated over the charter periods (42 and 30 months).

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

Note 3 — Spareparts, fuel, anchors and batteries

Amounts in NOK 1 000	2011	2010
Inventory type		
Equipment, components and parts	**37 529**	44 367
Anchors and batteries	**6 834**	2 962
Fuel	**4 080**	2 394
Total	**48 442**	**49 723**

Note 4 — Operating leases

Amounts in NOK 1 000	2011	2010
Operating leases recognised as expense in the period		
Charter hire	**151 400**	166 335
Office premises	**9 370**	9 580
Total	**160 770**	**175 915**

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.

	2011	2010
Number of employees included in the defined benefit plan	**150**	126

Amounts in NOK 1 000	2011	2010
Accrued pension obligations at 31 December	**24 491**	15 177
Estimated effect of future salary increase	**22 053**	17 307
Estimated pension obligations at 31 December	**46 544**	**32 484**
Fair value of plan assets	**-22 400**	-17 813
Actuarial losses/(gains)	**2 382**	11 430
Social security tax	**3 740**	3 680
Net pension obligations	**30 267**	**29 782**
Current service cost	**7 648**	8 611
Interest cost	**1 297**	1 275
Expected return on plan assets	**-1 147**	-1 127
Administration fee	**184**	238
Amortisation of actuarial (gain)/loss	**-459**	-609
Social security tax	**1 125**	1 269
Benefit expenses	**8 648**	**9 656**
Principal assumptions:		
Discount rate	**2.60 %**	4.00 %
Expected rate of return on pension plan assets	**4.10 %**	5.40 %
Expected future salary increases	**3.50 %**	4.00 %
Expected adjustments in National Insurance base rate	**3.25 %**	3.75 %
Expected rate of pension increase	**0.10 %**	1.30 %
Social security tax	**14.10 %**	14.10 %

Note 6 — Remuneration

The average number of employees during 2011 was 154.

Amounts in NOK 1 000	2011	2010
Wage costs:		
Salaries	**187 242**	129 170
Payroll tax	**21 126**	17 831
Pension costs	**8 648**	9 656
Other payments	**10 668**	16 766
Total	**227 684**	**173 423**

Executive Management remuneration

Amounts in NOK 1 000		Salaries	Bonus	Share options	Pension benefit	Other benefits**	Total remuneration
Executive Management							
Roar Bekker, CEO	2011	3 441	1 028*	248	138	326	**5 182**
Svein T. Knudsen, CFO	2011	1 829	1 311*	162	113	2 055	**5 470**
Anette Mellbye, CLC	2011	1 665	739*	88	150	22	**2 663**
Dag Reynolds, Executive VP Sales, Marketing and Business Development	2011	1 605	528	190	105	805	**3 233**

* Bonus paid in 2011 includes bonus for 2010 and deferred bonus for 2009.

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

Accrued bonuses for the Executive Management as of 31 December 2011 was 3 057.

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 fulfillment of EMGS' goals and the individual goals. There are also car allowance agreements in place for most of the Executive Management Group and the Group is included in the Company's ordinary pension plan.

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

Board of Directors remuneration

Amounts in NOK 1 000	Directors' fee	Salaries	Bonus	Share options	Pension benefit	Other benefits	Total remuneration
Board of Directors							
Bjarte H. Bruheim, Chairman of the Board	3 102	-	-	-	-	-	**3 102**
Jeffrey Harris, Director	-	-	-	-	-	-	**-**
Grethe Høiland, Director	167	-	-	-	-	-	**167**
Berit Svendsen, Director	222	-	-	-	-	-	**222**
Stig Eide Sivertsen	222	-	-	-	-	-	**222**
Magni Hofstad, Employee's representative	-	-	-	-	-	-	**-**
Lodve Berre, Employee's representative	-	-	-	-	-	-	**-**

The amounts listed under Directors' fee have been expensed in 2011.

The remuneration of the employee representatives as employees is not included above.

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

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

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

	Number of options OB	Granted options	Forfeited options	Terminated options	Exercised options	Weighted average exercise price -A	Number of options CB	Weighted average exercise price B	Weighted average remaining contractual life
Executive Management									
Roar Bekker	635 000	-	-	-	-	-	635 000	5.42	3.92
Svein T. Knudsen	525 000	-	-	-	330 000	6.17	195 000	5.20	5.04
Anette Mellbye	224 000	-	-	-	-	-	224 000	5.24	4.41
Dag Reynolds	275 000	-	-	-	110 000	5.65	165 000	5.65	5.19
Board of Directors									
Bjarte H. Bruheim	305 000	-	-	-	205 000	10.95	100 000	5.77	2.00
Magni Hofstad	16 000	-	-	-	-	-	16 000	5.30	3.85
Lodve Berre	10 500	-	-	-	-	-	10 500	5.06	4.81

A - average exercise price for options exercied during 2011.
B - average exercise price for number of options by 31 December 2011.

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	2011	2010
*** Fees to auditor included in consultancy fees:**		
Statutory audit services (excl. VAT)	**1 242**	1 200
Tax advisory services (excl. VAT)	**1 333**	344
Further assurance services	**448**	761
Other non-audit services	**88**	66
Total auditor expenses	**3 111**	**2 371**

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 2011	577 344	15 000	43 505	151 970	**787 819**
Purchases	50 758	11 416	5 424	16 332	**83 930**
Disposals					
Acquisition cost at 31 December 2011	628 102	26 416	48 929	168 302	**871 749**
Accumulated depreciation 1 January 2011	440 794	13 000	33 489	114 239	**601 522**
Depreciation/amortisation for the year	64 565	2 071	5 739	20 506	**92 881**
Disposals	-	-	-	-	**-**
Accumulated depreciation 31 December 2011	505 359	15 071	39 228	134 745	**694 403**
Net carrying value at 31 December 2011	122 743	11 345	9 701	33 557	**177 346**
Depreciation rate (%)	13-33	7-10	33		

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

Addition of self developed assets in 2011 amounted to 36 215 (2010: 4 856)

Finance leases are capitalised at the lease's commencement at the lower of the present value and cost. The leasing contracts have a duration of 3 years and the asset will be depreciated over a 3-5 year period. The terms of the agreements are 3 months NIBOR + 3.50% and 7.60%.

Finance leases

Amounts in NOK 1 000	2011	2010
Capitalised in the balance sheet 31 December	**135 565**	131 408
Accumulated depreciation	**-105 245**	-87 618
Net carrying value	**30 320**	**43 790**
Depreciation	**17 627**	24 050

	2011		2010	
Amounts in NOK 1 000	Nominal value	Present value	Nominal value	Present value
Leases due within 12 months	**8 914**	**7 669**	14 223	12 188
Leases due within the next 13 - 36 months	**13 167**	**12 132**	17 282	15 528
Remaining debt on leasing contracts 31 December	**22 081**	**19 800**	**31 505**	**27 716**

Amounts in NOK 1 000	2011	2010
Specification of R&D expenses		
External expenses	**2 866**	3 989
Materials	**2 065**	395
Internal time	**18 282**	15 066
Total R&D expenses	**23 214**	**19 450**

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	2011	2010
Taxes base specification		
Profit before tax	**-34 163**	-213 708
Permanent differences	**5 971**	-4 561
Changes in temporary differences	**-8 441**	-21 015
Tax expenses abroad, paid	**-131**	1 167
Taxable profits before utilisation of unused tax losses	**-36 764**	**-238 117**
Tax losses carried forward	**36 764**	238 117
Taxable profit (this year tax base)	**-**	-
Income tax expenses		
Non-creditable foreign income taxes	**175**	-9 766
Total income tax expense	**175**	**-9 766**
Temporary differences		
Fixed assets	**-141 525**	-145 515
Provisions tax liability abroad	**-4 432**	-9 368
Pension obligations	**-30 267**	-29 782
Tax losses carried forward	**-1 383 810**	-1 347 045
Total temporary differences	**-1 560 034**	**-1 531 710**
Non-recognised deferred tax asset	**-436 810**	**-428 879**

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	-34 163	-9 566
Permanent difference	-	1 672
Other permanent difference (foreign income tax)	-	-37
Group contribution	-	-
Change in deferred tax assets, not recognised	-	7 931
Non-creditable foreign income taxes	-	175
Calculated tax	-	**175**
Effective tax rate in %	-	-0.5 %

Amounts in NOK 1 000	Amount	Applied	Remaining amount
Tax loss carry forward			
2002	29 285	29 285	-
2003	6 332	6 332	-
2004	80 154	26 721	53 433
2005	23 099	-	23 099
2007	294 380	-	294 380
2008	319 560	-	319 560
2009	418 459	-	418 459
2010	238 116	-	238 116
2011	36 764	-	36 764
Total	**1 446 148**	**62 338**	**1 383 810**

Unused tax losses can be carried forward indefinitely.

Note 9 — Collaterals

There are no long term liabilities due in more than five years from 31 December 2011.

Amounts in NOK 1 000	2011	2010
Collaterals		
Debts secured by pledge	**-**	125 961

For 2010 the debt was a secured convertible loan from Fugro N. V bearing an interest at 7.00% p.a.

Amounts in NOK 1 000	2011	2010
Pledged assets		
Accounts receivable	**-**	70 466
Tangible and intangible assets	**177 346**	186 297
Inventory	**48 442**	49 723
Total carrying value of pledged assets	**225 788**	**306 487**

As per 31 December 2011 the total pledge is 97 223 (2010: 101 557).

Note 10 — Investment in subsidiaries

Company	Share ownership/ voting rights 2011	Profit/loss 2011	Equity 31 December 2011	Location
EMGS Americas 1 AS	100 %	-528	-614	Trondheim, Norway
EMGS Americas 2 AS	100 %	1	87	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100 %	761	120	Trondheim, Norway
Serv. Geologicos Electromagneticos Do Brazil LTDA	99 %	1 535	18 419	Rio de Janeiro, Brazil
Global emgs Nigeria Ltd	35 %	593	-1 543	Lagos, Nigeria
EMGS Americas Inc	100 %	-3 301	-11 607	Delaware, USA
EMGS Malaysia Sdn Bhd	1 %	-322	472	Kuala Lumpur, Malaysia
EMGS Asia Pacific Sdn Bhd	100 %	-1 157	298	Kuala Lumpur, Malaysia
EMGS International BV	100 %	-90	-356	Amsterdam, Holland
EMGS Australia Pty Ltd	100 %	134	489	Perth, Australia
EMGS Global AS	100 %	4 775	3 085	Trondheim, Norway
EMGS Shipping Mexico S. de R.L de C.V.	49 %	-3 706	-2 429	Col. Del Valle, Mexico
EMGS Sea Bed Logging Mexico S.A. de C.V.	100 %	89 529	91 699	Col. Del Valle, Mexico
EMGS Labuan Ltd	100 %	2 658	3 905	Labuan, Malaysia
EMGS Geophysical Limited	100 %	-	-	Nicosia, Cyprus
EMGS Global Services (Cyprus) Limited	100 %	-	-	Nicosia, Cyprus
EMGS MCL Limited	100 %	-	-	Nicosia, Cyprus
EMGS Surveys AS	100 %	-117	82 991	Trondheim, Norway
TOTAL		**91 513**	**187 689**	

Note 11 — Ongoing projects

Part of accounts receivable which is recognised in 2011, but not invoiced per 31 December 2011 amounts to 20 732. Deferred revenue as of 31 December 2011 amounts to 1 398.

The Company does not expect any loss on contracts in 2011.

Note 12 — Receivables

There has not been made any provision for doubtful receivables per 31 December 2011 (2010: 0)

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

Amounts in NOK 1 000	2011	2010
Intercompany balances with group companies		
Trade receivables	**-**	-
Other receivables	**105 632**	75 772
Total intercompany receivables	**105 632**	**75 772**
Short term liabilities	**-**	-
Total intercompany liabilities	**-**	**-**

Note 13 — Bank deposits

Restricted cash as of 31 December 2011:

Amounts in NOK 1 000	Short term	Long term	Total
Employee tax	5 897	-	5 897
Guarantees	93 300	3 538	96 838
Total restricted cash	**99 197**	3 538	**102 735**

Note 14 — Share capital and shareholder information

The Company's share capital consists of 197 441 562 shares at a par value of NOK 0.25, giving a total share capital of 49 360.

The largest shareholders as of 31 December 2011:

	Number of ordinary shares	Percentage
Number of shareholders		
Warburg Pincus	41 873 434	21.21 %
Fugro Norway AS	27 777 778	14.07 %
Odin Norge	7 749 424	3.92 %
Odin Offshore	5 770 518	2.92 %
JP Morgan Clearing Corp.	3 863 100	1.96 %
Skandinaviska Enskilda Banken	3 771 630	1.91 %
Euro Trans Skips AS	3 559 444	1.80 %
UBS Securities LLC	2 995 824	1.52 %
DNB Nor SMB	2 850 000	1.44 %
UBS AG, London Branch	2 682 520	1.36 %
JP Morgan Chase Bank	2 613 629	1.32 %
Tveteraas Eiendomsselskap AS	2 500 000	1.27 %
VPF Nordea Kapital	2 306 281	1.17 %
Delphi Norge	2 300 000	1.16 %
Statoil Pensjon	2 290 248	1.16 %
Sundt AS	2 250 000	1.14 %
Bjarte H. Bruheim	2 205 088	1.12 %
Skagen Vekst	2 185 079	1.11 %
Verdipapirfondet DNB Navigator	2 045 801	1.04 %
BLKRCK GLBL Smallcap FD	1 955 829	0.99 %
Others	71 895 935	36.41 %
Total	**197 441 562**	**100.00 %**

	Shares
Leading representatives of the Company hold the following shares	
CEO	130 000
Board of Directors	2 254 901

Note 15 — Equity

Amounts in NOK 1 000	Share capital	Share premium	Other paid-in capital	Other equity (uncovered loss)	Total
Equity 1 January 2011	**38 456**	**609 978**	**47 604**	**-498 071**	**197 967**
Conversion of convertible loans	8 398	151 813			**160 211**
Share-based payments	-	-	2 780	-	**2 780**
Proceeds from shares issued - purchase of subsidiary	2 076	102 571	-	-	**104 648**
Proceeds from options execised	430	10 176	-	-	**10 606**
Loss for the year	-	-	-	-34 338	**-34 338**
Equity 31 December 2011	**49 360**	**874 538**	**50 383**	**-532 409**	**441 872**

Note 16 — Financial items

Amounts in NOK 1 000	2011	2010
Financial income		
Group contribution	**2 675**	119
Interest income on short term bank deposits	**1 248**	1 188
Foreign exchange rate gains	**47 618**	19 857
Total financial income	**51 541**	**21 164**
Financial costs		
Interest expense	**34 600**	42 142
Foreign exchange rate losses	**36 551**	33 079
Other financial expenses	**1 904**	4 149
Total financial costs	**73 055**	**79 370**
Net financial gain/(loss)	**-21 514**	**-58 206**

Note 17 — Interest in a joint venture

In February 2011, EMGS sold its shares in KJT. EMGS entered into a license agreement for the KJT IP portfolio and used the shares in KJT as part of the consideration.

EMGS had a 40% interest and owned 50% of the voting shares in KJT Inc as of 31 December 2010, a jointly controlled entity. KJT is an unlisted company based in the USA which offers an alternative to the Company's propietary methodologies in shallow water applications.

Amounts in NOK 1 000	2011	2010
Total equity in the Company	-	4 386
Net income for the year in the Company	-	8 953
Net carrying value	-	19 257

Note 18 — Loans

On 26 May 2011, EMGS secured a NOK 250 million bond bearing an interest at 3 months NIBOR + 7.00% p.a.

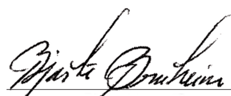
The bond is unsecured.

Amounts in NOK 1 000	Currency amount	Carrying value liability	Interest rate	Term to maturity	Date of payment
Bond	NOK 250 million	245 676	3 month NIBOR + 7.00%	2.4 years	26 May 2014

Note 19 — Provisions

The Company recognised a provision for onerous contracts based on the vessel lease contracts on the vessels that were not used in production of the Company's services as of 31 December 2010. EMGS ASA 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 were sub-leased, the net amount of lease payments to the vessel owners and revenues from the sub-lease wass recorded as a provision. As of 31 December 2011 no such provision is accrued (2010: 4 535).

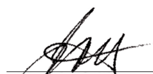
Oslo, 21 March 2012



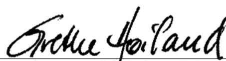
Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen



Jeffrey Alan Harris



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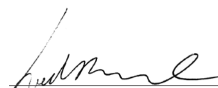

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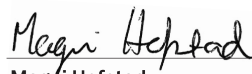

Magni Hofstad

Roar Bekker
CEO

ERNST & YOUNG

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Member of the Norwegian Institute of Public Accountants

To the Annual Shareholders' Meeting of
Electromagnetic Geoservices ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Electromagnetic Geoservices ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2011, the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2011, 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 2011 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the Group

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and the statement on corporate governance

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

Opinion on registration and documentation

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

Oslo, 23 March 2012
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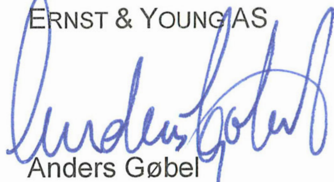

Anders Gøbel
State Authorised Public Accountant (Norway)

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