EMGS second quarter & first half year 2014

21/08/2014

emgs

Highlights in the second quarter and first half year 2014

Operational highlights

- First major 3D EM multi-client survey in the US Gulf of Mexico extended
- Awarded multiple contracts with new and existing customers in Norway
- Commenced joint 3D EM multi-client project in the southeast Barents Sea with TGS
- Partner agreements with ANCAP in Uruguay and Nalcor Energy in Canada

Financial highlights

- Revenues of USD 42.5 million
- EBITDA of USD 10.9 million

Recent events

- Contracts signed with OMV (Norge) and Norske Shell
- Sale of multi-client data from offshore the Faroe Island
- Commenced 3D Multi-client survey offshore Canada
- Convertible bond loan to North Energy settled

Key financial figures

USD million (except per share data)	Q2 2014	Q2 2013	First half year 2014	First half year 2013	2013	Q1 2014
Contract sales	**35.5**	29.6	82.0	49.5	111.3	46.4
Multi-client sales	**7.0**	14.8	21.9	26.6	33.3	14.9
Total revenues	**42.5**	**44.4**	**103.8**	**76.1**	**144.6**	**61.3**
Operating profit/ (loss)	**2.3**	2.0	15.0	(4.1)	(12.3)	12.8
Income/ (loss) before income taxes	**(0.6)**	(1.6)	11.1	(2.8)	(13.2)	11.7
Net income/ (loss)	**(2.5)**	(1.6)	5.8	(4.2)	(15.1)	8.2
Earnings/ (loss) per share	**(0.01)**	(0.01)	0.03	(0.02)	(0.08)	0.04
Average number of shares outstanding (in thousands)	**199 639**	198 936	199 639	198 936	199 310	199 512
EBITDA	**10.9**	13.2	31.4	14.5	17.5	20.4
Multi-client investment	**10.7**	11.9	13.9	20.3	32.0	3.2
Adjusted EBITDA	**0.2**	1.3	17.5	(5.8)	(14.5)	17.2

Financial review

Revenues and operating expenses

EMGS recorded revenues of USD 42.5 million in the second quarter of 2014, down from USD 44.4 million reported for the second quarter of 2013. Contract sales totalled USD 35.5 million, while multi-client sales came in at USD 7.0 million in the quarter, after adjustment for TGS' share of the revenues from the joint projects between the two companies. The cash contribution from TGS related to the project in the Barents Sea is not recognised as revenue, but reduces the carrying value of the multi-client data library balance. For the second quarter 2013, the contract sales totalled USD 29.6 million and the multi-client sales USD 14.8 million.

The Company recorded 12.0 vessel months in the second quarter of 2014 as opposed to 11.5 in the second quarter of 2013. Vessel utilisation came in at 75% in the second quarter of 2014, with an allocation of 38% to contract and 37% to multi-client programmes. For the corresponding period of 2013, the Company had a total utilisation of 78%, with 32% allocated to contract and 46% to multi-client programmes.

Revenues for the first half year of 2014 came in at USD 103.8 million, compared with USD 76.1 million for the first half year of 2013. The increase in revenues is related to more contract work this year than in the corresponding period last year.

Charter hire, fuel and crew expenses totalled USD 13.9 million in the second quarter of 2014, up from USD 11.7 million in the corresponding quarter of 2013. The increase is mainly related to reduction of capitalisation of multi-client costs from USD 11.9 million in the second quarter of 2013 to USD 10.7 million in the corresponding period in 2014.

For the first half year of 2014, charter hire, fuel and crew expenses came in at USD 34.5 million, up from USD 22.0 million in 2012. USD 13.1 million was capitalised as multi-client costs in the first half of 2014 as opposed to USD 20.3 million in the same period last year.

Employee expenses decreased from USD 13.6 million in the second quarter of 2013 to USD 12.1 million in the second quarter of 2014. The decrease is explained by a reduction in expenses related to option allocation from USD 2.3 million in the second quarter 2013 to USD 0.5 million in the second quarter this year.

Employee expenses for the first half year were USD 27.8 million in 2014 and USD 28.4 million in 2013.

Other operating expenses decreased from USD 5.9 million in the second quarter of 2013 to USD 5.6 million in the second quarter of 2014.

For the first half year 2014, other operating expenses came in at USD 10.1 million, down from USD 11.3 million in 2013.

Depreciation and amortisation

Depreciation and ordinary amortisation totalled USD 4.2 million in the second quarter 2014, up from USD 4.1 million in the same quarter in 2013.

Multi-client amortisation totalled USD 2.5 million in the second quarter of 2014, down from USD 7.1 million in the second quarter of 2013. The decrease is related to lower multi-client sales in the second quarter of 2014 compared to the same period last year.

Based on an updated sales forecast, the Company estimated the recoverable amount for the Sunshine project to be USD 2.8 million at the end of the second quarter 2014. This compares to a carrying amount of the library of USD 4.8 million, resulting in a multi-client impairment of USD 2.0 million in the quarter. In the corresponding period of 2013, no impairment was done.

Depreciation and ordinary amortisation decreased from USD 8.7 million in the first half of 2013 to USD 8.6 million in 2014. Multi-client amortisation totalled USD 5.8 million for the first half of 2014, down from USD 9.9 million in 2013.

Net financial items

In the first quarter of 2014, North Energy ASA bought EM data from EMGS' existing multi-client data library in the Barents Sea. The payment of NOK 75 million was in form of a convertible bond issued by North Energy ASA. The bond has a strike price of NOK 4.15, coupon of 6% and a maturity of 6 months. According to IFRS, the conversion right of the bond is subject to a "fair value adjustment" related to changes in North Energy ASA's share price. The share price was NOK 4.80 as of 31 March 2014 and NOK 4.50 as of 30 June 2014, resulting in a negative adjustment of USD 1.1 million in the second quarter of 2014, recorded as a financial loss.

Interest expenses decreased from USD 3.1 million in the second quarter of 2013 to USD 1.5 million this quarter. The decrease is related to repurchase of bonds last year. The Company recorded a loss on net foreign currency of USD 0.2 million this quarter, while a loss of USD 0.6

million was recorded in the corresponding quarter in 2013. Net financial items ended at negative USD 2.9 million, compared with a loss of USD 3.6 million in the second quarter of 2013.

For the first half year of 2014, net financial items were negative USD 3.9 million, down from a positive USD 1.3 million.

Income/(loss) before income taxes

Loss before income taxes came in at USD 0.6 million in the second quarter 2014, compared with a loss before income taxes of USD 1.6 million in the corresponding quarter in 2013.

Income before income taxes for the first half of 2014 was USD 11.1 million, compared to a loss before income taxes of USD 2.8 million in the same period last year.

Income tax expenses

Income tax expenses of USD 1.9 million were recorded in the second quarter of 2014, compared with an income tax expense of USD 0.1 million in the second quarter of 2013. These taxes relate to results in foreign jurisdictions.

Income tax expenses for the first half year of 2014 were USD 5.3 million, compared with USD 1.4 million for the same period in 2013.

Net income for the period

Loss for the second quarter of 2014 ended at USD 2.5 million, down from a loss of USD 1.6 million in the same period last year.

Income for the first half year of 2014 was USD 5.8 million, up from a loss of USD 4.2 million in 2013.

Cash flow and balance sheet

In the second quarter of 2014, net cash flow from operating activities was positive USD 10.7 million, compared with negative USD 7.5 million in the same period last year. The positive cash flow in 2014 is mainly caused by a positive EBITDA, an increase in trade payables of USD 3.9 million and a positive change in other working capital of USD 7.3 million. The cash flow is negatively affected by an increase in trade receivables of USD 6.3 million.

In the first half year of 2014, net cash flow from operating activities was positive USD 10.1 million, compared with positive USD 8.3 million the same period last year.

EMGS applied USD 17.1 million in investing activities in the second quarter of 2014. The investments consist of USD 10.7 million in multi-client library and USD 6.4 million in property, plant and equipment. The ending multi-client library balance was USD 30.2 million at 30 June 2014, up from USD 28.0 million at 31 March 2014. The carrying value of the multi-client library balance was in the second quarter reduced by USD 4.0 million through the cash contribution from TGS to the joint project in the Barents Sea and reduced by USD 2.0 million through impairment. The Company expects to complete its 2014 Barents Sea campaign by the end of August. In the same period in 2013, cash applied in investing activities amounted to USD 16.3 million.

Cash flow from investing activities in the first half year of 2014 amounted to USD 26.8 million, compared with USD 29.5 million in the same period in 2013.

Cash flow from financial activities was negative USD 1.1 million in the second quarter of 2014, compared with positive USD 28.4 million in the same period of 2013. The reduction is related to the issuance of an unsecured bond of NOK 350 million in June 2013. Total borrowings were USD 61.3 million at 30 June 2014, same amount as at 31 March 2014.

Cash flow from financial activities for the first half year of 2014 amounted to USD 1.0 million, compared with USD 27.0 million in the same period in 2013.

Cash decreased by USD 7.5 million during in the second quarter of 2014. At 30 June 2014, cash and cash equivalents totalled USD 40.4 million, including USD 0.8 million restricted cash.

Operational review

Vessel utilisation

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Contract	**38%**	56%	46%	35%	32%
Multi-client	**37%**	10%	4%	42%	46%
Total utilisation	**75%**	66%	50%	77%	78%

Vessel utilisation and fleet allocation
Vessel utilisation for the second quarter 2014 came in at 75% compared with 78% for the corresponding quarter in 2013.

The Company's vessels were allocated 38% to contract and 37% to multi-client programmes, whereas the allocation was 32% and 46% respectively in the second quarter last year.

EMGS recorded 12.0 vessel months this quarter, compared with 11.5 in the second quarter of 2013.

The vessel utilisation for the first half year 2014 came in at 71%, the same as for the first half year 2013.

Vessel activity

BOA Thalassa
The BOA Thalassa completed its work in Morocco on 25 April, after which the vessel moved to Norway to commence on a series of smaller contracts in the Barents Sea from 6 May. The vessel's utilisation for the second quarter 2014 was 74%.

BOA Galatea
The BOA Galatea acquired 3D EM data on the USD 99.8 million contract with PEMEX until 31 May. The vessel then started the planned yard stay including the 5 year class renewal. The vessel's utilisation came in at 66% for the second quarter.

The vessel completed its yard stay on 7 July, after which the vessel headed towards Canada to start the multi-year, multi-client campaign.

Atlantic Guardian
After completing its work on the PEMEX contract on 22 March, the Atlantic Guardian headed to Norway and commenced on the contract for North Energy in the Norwegian Sea on 19 April. Thereafter the vessel started on the Company's multi-client campaign in the southeastern part of the Barents Sea, a joint project with TGS. The vessel's utilisation for the quarter was 64%.

EM Leader
The EM Leader commenced the multi-client campaign, called Daybreak, late February and spent the full second quarter acquiring data for the campaign in the Alaminos Canyon in southern US Gulf of Mexico. The EM Leader had a utilization of 95% in the second quarter.

Backlog
As of 30 June 2014, EMGS' backlog was at USD 41 million. Of this, USD 19 million is related to the PEMEX contract.

Since the end of the second quarter, the Company has signed agreements for a total of approximately USD 9 million, bringing the total backlog as of 20 August to USD 51 million.

Important events

3D EM multi-client campaign in the Alaminos Canyon in the US Gulf of Mexico
In February, EMGS commenced its first 3D EM multi-client campaign in the US Gulf of Mexico. The project, named "Daybreak", cover blocks in the Alaminos Canyon protraction of the US Gulf of Mexico. The project was firstly expected to cover 80 blocks in 2014, but further industry interest resulted in an extension of the project. The Daybreak was completed on 19 August, covering approximately 156 blocks and 3,600 square kilometres.

Agreement with North Energy
EMGS signed an agreement with North Energy in January 2014 worth NOK 100 million (USD 16.1 million). The agreement included a sale of EMGS' full 3D EM multi-client data library in the Barents Sea and services related to EM inversion and integrated interpretation.

The payment for the 3D EM data of NOK 75 million was made in the form of a convertible bond with a strike price of NOK 4.15.

On 19 August, the convertible bond loan was settled. EMGS converted NOK 28.4 million of the loan into 6,851,463

	Utilisation Q2	Status Q2	Firm charter period	Optional charter period
BOA Thalassa	**74%**	In operation	15 December 2015	1 x 12 months
BOA Galatea	**66%**	In operation	17 July 2016	1 x 12 months
Atlantic Guardian	**64%**	In operation	1 March 2016	3 x 12 months
EM Leader	**95%**	In operation	Not applicable	Optional 1-, 3-, 6- or 12-month charters until 9 March 2015

shares in North Energy at a strike price of NOK 4.1451 (adjusted conversion price). In addition, the Company receives interest of NOK 0.9 million.

EMGS subscribed for 5,000,000 shares in North Energy's private placement in the first quarter. After settlement of the convertible bond loan, EMGS owns 11,851,463 shares, representing 9.96% of the outstanding shares in North Energy.

The remaining of the convertible bond loan, NOK 46.6 million plus interest of NOK 1.5 million will be settled in cash on the settlement date 2 September 2014.

During the second quarter, EMGS has announced that the Company has been awarded several contracts from North Energy.

Agreement with regulating authority ANCAP in Uruguay
Late April, EMGS announced that the Company had entered into a partnership agreement for multi-client EM data with La Administración Nacional de Combustibles, Alcohol y Portland ("ANCAP"). ANCAP is the regulating authority for oil and gas exploration in Uruguay. It is ANCAP's intention that the licensing of EM data will count as working units for the exploratory work program commitment in the upcoming license bid round in 2015.

2014 Barents Sea campaign
During the second and third quarter 2014, EMGS has expanded the Company's multi-client library in the Barents Sea with 14 blocks in the southeast area and 5 in the vicinity of the Hoop Fault Complex. The campaign will be completed in August and has been done in partnership with TGS.

Agreement with Nalcor Energy for 3D EM multi-client campaign in Canada
In May, EMGS signed a multi-client license agreement with Nalcor Energy, the Provincial Energy Corporation of Newfoundland and Labrador, for the acquisition of up to 13,500 km^2 in a multi-season campaign.

The campaign started on 25 July, using the vessel BOA Galatea, targeting the Flemish Pass Basin, where recent major oil discoveries have been made. Additional funding is expected, and will determine how much of the multi-year campaign that will be covered in 2014.

Patent infringement claims agains PGS
On 18 December EMGS announced that the Company had issued claims against Petroleum Geo-Services1 (PGS) in the High Court of Justice, Patent Court, in London, UK. In April, similar claims were filed in Norwegian courts. The basis for the claims was the evaluation by EMGS that PGS has used the Towed Streamer EM in the United Kingdom, Ireland and in the Norwegian territory in violation of EMGS' patents. The evaluation was based on technical and commercial papers published by PGS as well as other public documents issued by PGS.

The hearing of the Norwegian case is scheduled to take place in the fourth quarter 2014.

The Patent was successfully defended by EMGS against claims of invalidity from Schlumberger Holding Ltd in the UK Court of Appeal in July 2010 and through several oppositions in the European Patent Office appeal division in December 2011.

Other recent events

New contracts
On 10 July, EMGS announced that the Company had received a contract from A/S Norske Shell and its partners in PL706 for 3D EM data acquisition in the Barents Sea. The survey was completed by the BOA Thalassa in July and had duration of approximately 10 days.

On 14 July, the Company announced another contract for 3D EM data acquisition in the Barents Sea, from OMV (Norge) AS and its partners in PL537. The contract was worth USD 2.7 million and was completed by the Atlantic Guardian.

On 1 August, EMGS received a contract worth USD 4.3 million for multi-client data offshore the Faroe Island. The agreement included both late sales of the existing multi-client dataset acquired by EMGS in 2012 (the Brugdan-Rosebank Line) and pre-funding of an extension of the existing dataset. The new data is expected to be acquired in September by BOA Thalassa.

Share information

EMGS was listed at the Oslo Stock Exchange in March 2007. During the second quarter 2014, the EMGS share was traded between NOK 5.88 and NOK 7.42 per share. The last closing price before 30 June 2014 was NOK 6.39.

The Company had a total of 199 765 555 shares outstanding at 30 June 2014.

[1]Including Petroleum Geo-Services ASA, PGS Exploration (UK) Limited and PGS Geophysical AS

General meeting

EMGS held its annual general meeting 3 June 2014. At the general meeting, Guro Høyaas Løken was elected as a new board member, following Maria Moræus Hanssen who withdrew from the board due to potential conflict of interest as CEO of GdF Norway.

Related party transactions

Note 32 in EMGS's annual report for 2013 concerns transactions with related parties. There have not been any new transactions with related parties during the first half of 2014, nor any material changes in the transactions mentioned in the note to the annual report.

Risks and uncertainty factors for the second half 2014

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

For the next six months, uncertainty is related to the Company's backlog, in particular closing of contracts in Asia. Also, multi-client late sales represent an uncertainty factor related to the Company's annual revenue guiding.

Also, the demand from the oil and gas companies for EM services might, in the short term, be affected by the current negative sentiment in the seismic market.

In addition, there are risks associated with EM marine operations which might affect the profitability of projects. Examples include: Change in governmental regulations affecting EMGS's markets, technical downtime, adverse weather conditions, licenses and permitting, as well as delays in closing revenue-generating contracts. For a further description of other relevant risk factors, please refer to the Annual Report for 2013.

Outlook

For the first half year 2014, EMGS revenues came in at USD 104 million. As expected, the second quarter came in softer than the first quarter, due to steaming, yard stays and multi-client investments.

During the second quarter, the Company has invested in its multi-client projects in both the US Gulf of Mexico and the Barents Sea. In addition, a new multi-client project has been launched offshore Canada after the end of the quarter. EMGS believes that these investments will yield good returns and new investment opportunities for the years to come.

In Norway, the Company has entered into a number of new agreements with both new and repeat customers – not only in the Barents Sea, where the Company's has had most of its activity the last years, but also in the North Sea and the Norwegian Sea. This is a positive trend and promising for the industry adoption.

The Company maintains its full year 2014 revenue guiding of more than USD 200 million.

EMGS's long-term outlook is positive and the Company reiterates its strategy to achieve industry-wide integration of EM into the exploration workflow.

Statement of responsibility

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2014, which has been prepared in accordance with IAS 34 –Interim Financial Reporting, gives a true and fair view of Electromagnetic Geoservices ASA's consolidated assets, liabilities, financial position and results of operations. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of the information required under the Norwegian Securities Trading Act section 5-6 fourth paragraph.

Oslo, 20 August 2014
Board of Directors and CEO

Bjarte H. Bruheim
Chairman of the Board

Stig Eide Sivertsen

Berit Svendsen

Jeffrey Alan Harris

Christel Brønstad

Svein Ellingsrud

Maria Moræus Hanssen

Roar Bekker
CEO

Consolidated income statement

Amounts in USD 1 000	Q2 2014 Unaudited	Q2 2013 Unaudited	First half year 2014 Unaudited	First half year 2013 Unaudited	2013 Audited
Operating revenues					
Contract sales	**35 487**	29 560	81 952	49 544	111 284
Multi-client pre-funding	**3 580**	800	5 631	800	2 927
Multi-client late sales	**3 421**	14 036	16 224	25 754	30 387
Total operating revenues	**42 488**	**44 396**	**103 807**	**76 098**	**144 598**
Operating expenses					
Charter hire, fuel and crew expenses	**13 892**	11 707	34 484	21 963	51 219
Employee expenses	**12 091**	13 569	27 821	28 360	54 344
Depreciation and ordinary amortisation	**4 222**	4 080	8 555	8 673	17 495
Multi-client amortisation	**2 464**	7 112	5 793	9 866	12 337
Multi-client impairment	**2 003**	-	2 003	-	-
Other operating expenses	**5 566**	5 907	10 137	11 286	21 488
Total operating expenses	**40 238**	**42 375**	**88 793**	**80 148**	**156 883**
Operating profit/(loss)	**2 250**	**2 021**	**15 014**	**-4 050**	**-12 285**
Financial income and expenses					
Interest income	**141**	83	159	111	477
Interest expense	**-1 488**	-3 069	-3 273	-4 590	-7 204
Change in fair value of conversion rights	**-1 106**	-	505	-	-
Net gains/(losses) of financial assets	**-250**	-	416	-	-
Net foreign currency income/(loss)	**-156**	-609	-1 756	5 734	5 782
Net financial items	**-2 859**	**-3 595**	**-3 949**	**1 255**	**-945**
Income/(loss) before income tax	**-609**	**-1 574**	**11 065**	**-2 795**	**-13 230**
Income tax expense	**1 852**	68	5 287	1 384	1 865
Income/(loss) for the year	**-2 461**	**-1 642**	**5 778**	**-4 179**	**-15 095**

Consolidated statement of comprehensive income

Amounts in USD 1 000	**Q2 2014 Unaudited**	Q2 2013 Unaudited	First half year 2014 Unaudited	First half year 2013 Unaudited	2013 Audited
Income/(loss) for the period	**-2 461**	**-1 642**	**5 778**	**-4 179**	**-15 095**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	**174**	37	897	274	-255
Items not to be reclassified to profit or loss in subsequent periods:					
Actuarial gain/(losses) on defined benefit plans	**-**	-	-	-	-1 055
Other comprehensive income	**174**	37	897	274	-1 310
Total comprehensive income/(loss) for the year	**-2 287**	-1 605	6 675	-3 905	-16 405

Consolidated statement of financial position

Amounts in USD 1 000	Half year ended 30 June 2014 Unaudited	Half year ended 30 June 2013 Unaudited	2013 Audited
ASSETS			
Non-current assets			
Goodwill	**14 422**	14 422	14 422
Deferred tax asset	**1 900**	-	3 202
Multi-client library	**30 185**	22 775	28 108
Other intangible assets	**2 487**	4 614	3 353
Property, plant and equipment	**21 749**	27 364	27 683
Assets under construction	**26 176**	17 112	19 200
Financial assets	**3 727**	-	-
Total non-current assets	**100 646**	**86 287**	**95 967**
Current assets			
Spare parts, fuel, anchors and batteries	**13 367**	11 907	12 990
Trade receivables	**48 057**	48 563	31 520
Other receivables	**26 178**	29 976	17 138
Cash and cash equivalents	**39 645**	44 927	55 305
Restricted cash	**787**	1 308	1 240
Total current assets	**128 034**	**136 682**	**118 193**
Total assets	**228 680**	**222 969**	**214 160**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital, share premium and other paid in equity	**286 652**	283 392	285 249
Other reserves	**-819**	-1 187	-1 717
Actuarial gains(losses)	**2 508**	3 563	2 508
Retained earnings	**-178 046**	-172 908	-183 823
Total equity	**110 295**	**112 861**	**102 217**
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	**3 501**	2 150	3 452
Non-current tax liability	**-**	193	35
Provisions	**8 602**	4 260	7 164
Borrowings	**57 826**	57 186	56 628
Total non-current liabilities	**69 929**	**63 789**	**67 279**
Current liabilities			
Trade payables	**20 136**	13 206	15 942
Current tax liabilities	**3 707**	1 391	2 299
Other short term liabilities	**21 149**	15 939	26 295
Borrowings	**3 464**	15 781	128
Total current liabilities	**48 456**	**46 318**	**44 664**
Total liabilities	**118 385**	**110 107**	**111 943**
Total equity and liabilities	**228 680**	**222 969**	**214 160**

Electromagnetic Geoservices Group

Consolidated statement of cash flows

Amounts in USD 1 000	Q2 2014 Unaudited	Q2 2013 Unaudited	First half year 2014 Unaudited	First half year 2013 Unaudited	2013 Audited
Net cash flow from operating activities:					
Income/(loss) before income tax	**-609**	-1 575	11 065	-2 795	-13 230
Adjustments for:					
Witholding tax expenses	**1 192**	542	2 942	1 284	3 231
Total taxes paid	**-4 818**	-618	-5 519	-3 659	-5 180
Depreciation and ordinary amortisation	**4 222**	4 215	8 555	8 673	17 495
Multi-client amortisation and impairment	**4 467**	7 111	7 796	9 866	12 337
Non-cash portion of pension expense	**-5**	94	49	-135	1 167
Cost of share-based payment	**461**	2 287	1 381	4 005	5 173
Change in trade receivables	**-6 294**	-6 057	-16 537	-1 563	15 480
Change in inventories	**-393**	-492	-377	967	-116
Change in trade payables	**3 947**	-2 257	4 194	3 590	6 326
Change in other working capital	**7 339**	-12 424	-5 940	-14 864	3 955
Amortisation of interest	**1 220**	1 701	2 469	2 883	5 273
Net cash flow from operating activities	**10 729**	**-7 473**	**10 078**	**8 252**	**51 911**
Investing activities:					
Purchase of property, plant and equipment	**-6 414**	-4 333	-8 926	-9 187	-10 707
Purchase of intangible assets	**-**	-	-	-	-8 306
Investment in multi-client library	**-10 690**	-11 946	-13 885	-20 360	-26 319
Investment in financial assets	**-**	-	-3 976	-	-
Cash used in investing activities	**-17 104**	**-16 279**	**-26 787**	**-29 547**	**-45 332**
Financial activities:					
Financial lease payments - principal	**-24**	-378	-63	-797	-1 753
Proceeds from issuance of ordinary shares	**22**	104	22	104	792
Proceeds of bond offering	**-**	56 550	-	56 550	56 550
Proceeds from new loan	**-**	-	3 310	-	-
Repayment of bond	**-**	-26 928	-	-26 928	-41 873
Payment of interest on bonds	**-1 126**	-955	-2 220	-1 966	-4 249
Cash provided by financial activities	**-1 128**	**28 393**	**1 049**	**26 963**	**9 467**
Net change in cash	**-7 502**	**4 641**	**-15 660**	**5 668**	**16 046**
Cash balance beginning of period	**47 147**	40 286	55 305	39 259	39 259
Cash balance end of period	**39 645**	44 927	39 645	44 927	55 305
Net change in cash	**-7 502**	**4 641**	**-15 660**	**5 668**	**16 046**

Electromagnetic Geoservices Group

Consolidated statement of changes in equity

Attributable to equity holders of the Company

Amounts in USD 1 000	Share capital share premium and other paid-in equity	Foreign currency translation reserves	Actuarial gains/(losses)	Retained earnings	Total equity
Balance at 1 January 2013	**279 283**	**-1 461**	**3 563**	**-168 730**	**112 655**
Income/(loss) for the period	-	-	-	-2 536	**-2 536**
Other comprehensive income	-	237	-	-	**237**
Total comprehensive income	**-**	**237**	**-**	**-2 536**	**-2 299**
Cost of share-based payment	1 718	-	-	-	**1 718**
Balance at 31 March 2013 (Unaudited)	**281 001**	**-1 225**	**3 563**	**171 265**	**112 075**
Income/(loss) for the period	-	-	-	-1 642	**-1 642**
Other comprehensive income	-	37	-	-	**37**
Total comprehensive income	**-**	**37**	**-**	**-1 642**	**-1 605**
Cost of share-based payment	2 287	-	-	-	**2 287**
Proceeds from shares issued - private placement and options exercised	104	-	-	-	**104**
Balance at 30 June 2013 (Unaudited)	**283 392**	**-1 188**	**3 563**	**-172 907**	**112 860**
Income/(loss) for the period	-	-	-	-12 213	**-12 213**
Other comprehensive income	-	-289	-	-	**-289**
Total comprehensive income	**-**	**-289**	**-**	**-12 213**	**-12 502**
Cost of share-based payment	645	-	-	-	**645**
Proceeds from shares issued - private placement and options exercised	314	-	-	-	**314**
Balance at 30 September 2013 (Unaudited)	**284 351**	**-1 477**	**3 563**	**-185 120**	**101 317**
Income/(loss) for the period	-	-	-	1 297	**1 297**
Other comprehensive income	-	-240	-1 055	-	**-1 295**
Total comprehensive income	**-**	**-240**	**-1 055**	**1 297**	**2**
Cost of share-based payment	523	-	-	-	**523**
Proceeds from shares issued - private placement and options exercised	374	-	-	-	**374**
Balance at 31 December 2013 (Audited)	**285 249**	**-1 717**	**2 508**	**-183 823**	**102 217**
Income/(loss) for the period	-	-	-	8 239	**8 239**
Other comprehensive income	-	723	-	-	**723**
Total comprehensive income	**-**	**723**	**-**	**8 239**	**8 962**
Cost of share-based payment	920	-	-	-	**920**
Balance at 31 March 2014 (Unaudited)	**286 169**	**-994**	**2 508**	**-175 584**	**112 100**
Income/(loss) for the period	-	-	-	-2 461	**-2 461**
Other comprehensive income	-	174	-	-	**174**
Total comprehensive income	**-**	**174**	**-**	**-2 461**	**-2 287**
Cost of share-based payment	461	-	-	-	**461**
Proceeds from shares issued - private placement and options exercised	22	-	-	-	**22**
Balance at 30 June 2014 (Unaudited)	**286 652**	**(819)**	**2 508**	**-178 046**	**110 295**

Notes to the financial statements

Accounting principles

These interim consolidated financial statements of the Group have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjuction with the Group's annual financial statements as of 31 December 2013. The Group has applied the same accounting policies as in the Group's Annual Financial Statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective as of 1 January 2014 as described below:

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

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

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

IFRS 12 Disclosure of Interest in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 replaces the disclosure requirements that were previously included in IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interest in Joint Ventures. None of these disclosure requirements are applicable for interim consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Group has not made such disclosures.

North Energy agreement

EMGS and North Energy ASA signed an agreement in January 2014. The agreement includes sale of 3D EM data from EMGS' existing multi-client data library in the Barents Sea and sale of services related to EM inversion and integrated interpretation. In addition, North Energy ASA has committed to pre-funding of USD 1.6 million.

The payment for the 3D EM data was in the form of a convertible bond issued by North Energy ASA with a strike price of NOK 4.15, coupon of 6% and with a maturity of 6 months. The remaining part of the payment will be settled in cash.

The conversion right of the loan is subject to a "fair value adjustment" according to IFRS. This adjustment is affected by changes in North Energy ASA's share price. For the second quarter, the negative effect totals USD 1.1 million owing to a decrease in the North Energy ASA's share price in the quarter. The convertible bond including the fair value of the conversion right of USD 13.9 million is classified as Other receivables in the Consolidated statement of financial position.

Segment reporting

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

The amounts below show sales revenues reported by geographic region.

Amounts in USD 1 000	**Q2 2014 Unaudited**	Q2 2013 Unaudited	First half year 2014 Unaudited	First half year 2013 Unaudited	2013 Audited
Americas	**21.2**	-	58.9	3.3	29.8
Asia/Pacific	**-**	29.5	5.1	49.4	76.4
EAME	**21.3**	14.9	39.8	23.4	38.5
Total	**42.5**	**44.4**	**103.8**	**76.1**	**144.6**

Multi-client library

Updated sales forecast for one multi-client project indicated a possible impairment. The recoverable amount for this project was therefore calculated, and the carrying amount of the library exceeded the recoverable amount by USD 2.0 million. An equivalent impairment charge has therefore been booked in the second quarter of 2014.

Disclaimer for forward-looking statements

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

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