# EMGS SECOND QUARTER 2017.

# Highlights in the Second Quarter.

## Operational highlights

- Multi-client investments in the Barents Sea
- 85% utilisation of one vessel
- Started rigging for the Deep Blue (JIP) source

## Financial highlights

- Revenues of USD 10.6 million
- EBITDA of USD 4.5 million
- Multi-client impairment of USD 3.2 million

## Recent events

- Rights issue of NOK 144 million (USD 17.5) million completed

### Key financial figures

| Amounts in USD million (except per share data) | Q2 2017 Unaudited | Q2 2016 Unaudited | First half year 2017 Unaudited | First half year 2016 Unaudited | 2016 Audited | Q1 2017 Unaudited |
|---|---|---|---|---|---|---|
| Contract sales | **0.5** | 0.4 | 1.2 | 13.4 | 21.8 | 0.7 |
| Multi-client sales | **10.2** | 14.7 | 13.4 | 14.7 | 22.7 | 3.2 |
| **Total revenues** | **10.6** | 15.1 | 14.6 | 28.1 | 44.5 | 3.9 |
| Operating profit/ (loss) | **-2.5** | -11.2 | -11.9 | -19.5 | -45.1 | -9.4 |
| Income/ (loss) before income taxes | **-3.6** | -11.2 | -14.0 | -26.6 | -52.9 | -10.4 |
| Net income/ (loss) | **-3.6** | -11.2 | -14.1 | -26.7 | -52.8 | -10.5 |
| Earnings/ (loss) per share | **-0.11** | -0.01 | -0.43 | -0.02 | -1.61 | -0.32 |
| Average number of shares outstanding (in thousands) | **32,794** | 1,311,766 | 32,794 | 1,311,766 | 32,794 | 32,794 |
| EBITDA | **4.5** | 2.8 | -1.2 | -0.6 | -8.9 | -5.7 |
| Multi-client and JIP test investments | **3.0** | 4.0 | 4.0 | 5.7 | 11.0 | 1.0 |
| Adjusted EBITDA | **1.5** | -1.2 | -5.2 | -6.3 | -19.9 | -6.7 |

EBITDA = Operating profit /(loss) + Depreciation and ordinary amortisation + Multi-client amortisation + Impairment of long-term assets

# Financial Review.

## Revenues and operating expenses

EMGS recorded revenues of USD 10.6 million in the second quarter of 2017, down from USD 15.1 million reported for the corresponding quarter of 2016. Contract sales totalled USD 0.5 million, while multi-client sales amounted to USD 10.1 million, net of an adjustment for a share of revenues from joint projects between EMGS and TGS. For the second quarter of 2016, contract sales totalled USD 0.4 million, while multi-client sales amounted to USD 14.7 million.

The Company recorded 3.0 vessel months in the second quarter of 2017 compared with 6.0 months in the second quarter of 2016. Vessel utilisation was 85% for the second quarter of 2017. In the second quarter of 2017, the Company had one vessel in operation. This vessel, the Atlantic Guardian, was allocated 85% to multi-client projects in Norway and no time was spent on contract work. In the comparable quarter of 2016, the vessels were allocated 76% to multi-client projects, and no capacity was allocated to contract work.

Revenues for the first half of 2017 amounted to USD 14.6 million, compared with USD 28.1 million for the first half of 2016. The decrease in revenues is mainly explained by a reduction in contract work this year compared with the corresponding period last year.

Charter hire, fuel and crew expenses totalled USD 0.9 million in the second quarter this year, compared with USD 3.7 million in the second quarter of 2016. The Company capitalised USD 3.0 million in multi-client and JIP expenses in the quarter, while USD 4.0 million was capitalised in the second quarter of 2016. The charter hire, fuel and crew expenses have decreased from USD 7.7 million in the second quarter of 2016 to USD 3.9 million in same period this year when adding back the capitalised multi-client and JIP expenses. The main reason for decreased expenses is the lower activity level in the second quarter 2017 as the Company only had one vessel on charter, resulting in lower vessel lease, fuel, vessel crew and other related costs.

For the first half of 2017, charter hire, fuel and crew expenses totalled USD 3.7 million, down from USD 9.3 million in 2016. USD 4.0 million was capitalised as multi-client and JIP expenses in the first half of 2017, as opposed to USD 5.7 million during the same period last year.

Employee expenses amounted to USD 3.4 million in the second quarter of 2017, down from USD 5.9 million in the same quarter in 2016. The decrease is mainly explained by a reduction in the number of employees.

Employee expenses for the first half of 2017 were USD 8.6 million in 2017, compared with USD 13.4 million in 2016.

Other operating expenses totalled USD 1.8 million in the second quarter this year. In the second quarter last year, other operating expenses amounted to USD 2.6 million. The decrease is mainly explained by a reduction in activity and implemented cost saving measures.

For the first half of 2017, other operating expenses amounted to USD 3.5 million, down from USD 6.0 million in the same period last year.

## Depreciation, amortisation and impairment

Depreciation and ordinary amortisation totalled USD 1.5 million in the second quarter of 2017, down from USD 1.9 million in the second quarter of 2016. The reduction is due to various assets becoming fully depreciated.

Depreciation and ordinary amortisation decreased from USD 4.0 million in the first half of 2016 to USD 2.9 million in 2017.

Multi-client amortisation amounted to USD 2.3 million this quarter, compared with USD 2.8 million in the second quarter of 2016. The Company uses straight-line amortisation for its completed multi-client projects, assigned over the useful life time of 4 years. The amortisation is then distributed evenly, independently of sales during the quarter.

Multi-client amortisation totalled USD 4.6 million for the first half of 2017, down from USD 5.6 million in 2016.

Based on updated sales forecasts, the Company has estimated the recoverable amounts for multi-client projects in the US Gulf of Mexico, Canada and Indonesia to be lower than the carrying value. The consequence is that the Company recorded a multi-client impairment of USD 3.2 million in the second quarter of 2017. In the corresponding quarter last year, an impairment of the multi-client library of USD 9.2 million was recorded.

## Net financial items

Net financial items ended at negative USD 1.0 million in the second quarter of 2017, compared with USD 5 thousand in the corresponding quarter last year.

In the first half of 2017, net financial items were negative USD 2.1 million, up from a negative USD 7.1 million in the first half of 2016.

## Income/(loss) before income taxes

Loss before income taxes amounted to USD 3.6 million in the second quarter 2017, compared with a loss before income taxes of USD 11.2 million in the corresponding quarter in 2016.

Loss before income taxes for the first half of 2017 amounted to USD 14.0 million, compared with a loss before income taxes of USD 26.6 million in the same period last year.

## Income tax expenses

Income tax expenses of USD 34 thousand were recorded in the second quarter of 2017, compared with an income tax expense of USD 55 thousand in the second quarter of 2016.

Income tax expenses for the first half of 2017 were USD 67 thousand, compared with USD 55 thousand in the same period in 2016.

## Net income for the period

Loss for the second quarter of 2017 amounted to USD 3.6 million, up from a loss of USD 11.2 million in the same period last year.

Losses for the first half of 2017 were USD 14.1 million, up from a loss of USD 26.7 million in the same period last year.

## Cash flow and balance sheet

In the second quarter 2017, net cash flow from operating activities was negative USD 1.9 million, compared with net cash flow of USD 7.4 million in the second quarter of 2016. The cash flow from operating activities this quarter was mainly affected by a negative change in trade receivables of USD 6.1 million, the positive EBITDA of USD 4.5 million increased the cash flow. The positive cash flow in the comparable quarter last year was mainly caused by a positive EBITDA.

In the first half of 2017, net cash flow from operating activities was negative USD 2.0 million, compared with a negative USD 2.3 million in the same period last year.

EMGS applied USD 3.9 million in investing activities in the second quarter this year, compared with USD 4.8 million in the second quarter of last year. The Company invested USD 0.9 million in equipment, USD 2.7 million in the multi-client library and 0.3 million in JIP in the second quarter 2017.

Cash flow from investing activities in the first half of this year amounted to a negative USD 5.3 million, compared with a negative USD 5.7 million in the same period. The Company invested USD 1.6 million in equipment, USD 3.7 million in the multi-client library and 0.3 million in JIP in the first half of 2017.

The carrying value of the multi-client library was USD 18.9 million at 30 June 2017, down from USD 21.6 million at 31 March 2017 and USD 33.1 million at 30 June 2016.

Cash flow from financial activities was positive USD 4.9 million in the second quarter of 2017, compared with a negative cash flow of USD 1.4 million in the same quarter last year. The positive cash flow this quarter included proceeds from drawing on the revolving credit facility of USD 5.5 million this quarter.

Cash flow from financial activities for the first half of 2017 amounted to positive USD 5.4 million, compared with a negative USD

2.5 million in the same period of 2016.

The Company had a net decrease in cash, excluding restricted cash, of USD 0.9 million during the second quarter of 2017. At 30 June 2017, cash and cash equivalents totalled USD 16.9 million, including 4.9 million in restricted cash.

## Financing

Total borrowings were USD 38.5 million at 30 June this year, up from USD 32.3 million at 31 March 2017 and up from USD 32.4 million at 30 June last year. This includes the drawing of the credit facility of USD 8.5 million and the Company’s bond loan, which has a carrying value of USD 29.1 million at 30 June 2017, USD 28.4 million at 31 March 2017 and USD 31.7 million at 30 June 2016.

The bond loan contains the following two financial covenants; free cash and cash equivalents of at least USD 10 million and capital employed ratio of minimum 1/3. In addition, the bond agreement has restrictions regarding the Company's ability to sell the multi-client library, declare or make dividend payments, incur additional indebtedness, change its business or enter into speculative financial derivative agreements. As of 30 June 2017, the free cash and cash equivalents totalled USD 12.1 million, while the capital employed ratio equalled 41%.

# Operational Review.

| | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 |
|---|---|---|---|---|---|
| Contract | **0 %** | 0 % | 35 % | 0 % | 0 % |
| Multi-client | **85 %** | 92 % | 54 % | 31 % | 76 % |
| Funded R&D project | **0 %** | 0 % | 0 % | 21 % | 0 % |
| Total utilisation | **85 %** | 92 % | 89 % | 52 % | 76 % |

## Vessel utilisation and fleet allocation

Vessel utilisation for the second quarter of 2017 amounted to 85% compared with 76% for the corresponding quarter in 2016. For the first half of this year, the vessel utilisation was 89% compared with 64% for the same period last year.

In the second quarter of 2017, the Company had one vessel in operation. This vessel was allocated 85% to multi-client projects and no time was spent on contract work. In the comparable quarter of 2016, the vessels were allocated 76% to multi-client projects, and no capacity was allocated to contract work.

EMGS recorded 3.0 vessel months in the quarter. In the second quarter 2016, the Company had two vessels in operation and recorded 6.0 vessel months

## Vessel activity in the second quarter

| | Utilisation Q2 2017 | Status Q2 2017 | Firm charter period | Optional charter period |
|---|---|---|---|---|
| BOA Thalassa | **0 %** | Off-hire | 01-Oct-19 | 3 x 6 months |
| Atlantic Guardian | **85 %** | In operation | 30-Sep-21 | 5 x 12 months |

### Atlantic Guardian

The Atlantic Guardian has acquired data on prefunded multi-client surveys in the Barents Sea from the beginning of the quarter to 23 June. Following that, the vessel steamed to Fosen shipyard for the rigging of the Deep Blue source.

### BOA Thalassa

The BOA Thalassa has been off-hire from 1 April. The new charter agreement has a firm start on 1 October 2017, and the vessel remains available, as an option to EMGS, on a project by project basis between 1 April and 1 October 2017.

## Backlog

As of 30 June 2017, EMGS' backlog was USD 5.5 million compared with a backlog of approximately USD 5 million at the end of the second quarter 2016. USD 5.3 million of the backlog as of 30 June 2017 is related prefunding and the remaining USD 0.2 million is related to processing, interpretation and other projects.

## Events during the first half of 2017

### Financial activities

On 22 March, EMGS announced that the Company had entered an agreement with DNB Bank ASA whereby the existing USD 10 million revolving credit and the USD 10 million guarantee facility were made fully available to EMGS based on security in form of guarantees from Siem Industries Inc. and Perestroika AS who receive market level guarantee commission. This improves the free cash position and ensures compliance with the minimum liquidity covenant in the Company's bond loan.

Further, the Company offered its bondholders to buy back in full their nominal outstanding amount at a price equivalent to 70% of the par value. The buy-back period was closed on 28 March 2017, and the nominal amount of NOK 24 million was bought back. A gain of USD 0.8 million was recorded under net financial items in the income statement.

On 25 April, EMGS held its annual general meeting. All resolutions were resolved. Reference is made to the Company's website (www.emgs.com) for a copy of the minutes from the annual general meeting. The minutes make reference, amongst others, to the reduction in share capital and new par value and the approval of the fully underwritten rights issue.

On 16 June, the Company's share capital reduction was registered with the Register of Business Enterprises. The share capital was reduced by NOK 295,147,215 by way of a reduction of the nominal value of the shares from NOK 10.00 to NOK 1.00. No distribution was carried out in connection with the share capital reduction.

### New terms for the BOA Thalassa charter agreement

EMGS signed an extended charter agreement for the vessel BOA Thalassa with BOA SBL AS (owner of the vessel) at new and improved commercial terms. The new terms are valid through 1 October 2019 with an option to extend the agreement through 1 April 2021. EMGS and the owner have agreed to a reduction of the charter hire rate by approximately 20% as well as increased flexibility during 2017.

### Cooperation with TGS expanded in the Barents Sea

EMGS and TGS agreed to expand the companies' cooperation agreement in the Barents Sea. TGS has invested in a 3D CSEM data acquisition project related to the 24th licensing round in Norway. The contribution from TGS was booked as a reduction of the carrying value of EMGS' multi-client library in the first quarter of 2017.

### Agreements involving data licensing and processing and interpretation services

On 16 March, EMGS announced that the Company had entered into agreements involving data licensing as well as processing and interpretation services related to 3D EM data in Norway and Mexico. The agreements represented revenues of approximately USD 2 million.

### Data licensing agreements in the Barents Sea and Norwegian Sea in Norway

On 24 March, EMGS announced that the Company had entered into agreements involving data licensing (prefunding and late sales) related to 3D EM data in the Barents Sea. The agreements represent revenues of approximately USD 3.7 million.

On 11 May, EMGS announced that the Company had entered into various agreements with oil companies involving late sales related to 3D CESEM data from the library in the Norwegian Sea and Barents Sea. These agreements represent revenues of USD 3.5 million.

On 2 June, EMGS announced that the Company had entered into various agreements with oil companies involving data licensing (prefunding and late sales) related to 3D EM data in the Norwegian Sea and Barents Sea. These agreements represent revenues of USD 2.4 million.

On 30 June, EMGS announced that the Company had entered into a prefunding and late sales agreement related to 3D CSEM data surveys in the Barents Sea. The agreement represents revenues of approximately USD 2.5 million and the data will be acquired during the second half of 2017.

### Acquisition using the new Deep Blue (JIP) source

On 9 June, EMGS announced that the Company had entered into prefunding agreements related to 3D CSEM data surveys in the Barents Sea and Norwegian Sea using the conventional technology and the new Deep Blue source. The agreements represent revenues of approximately USD 3 million. The data will be acquired during the 2017 summer season.

The Company did also announce that the original JIP agreement had been amended wherein the Deep Blue source is now available to the industry. The Deep Blue source provides a significantly higher output when compared to the conventional system.

## Recent events

### Completion of rights issue

On 7 July, EMGS completed its rights issue. The subscription period in the Rights Issue expired on 6 July 2017. A total of 52,065,521 shares were subscribed for in the Rights Issue, and as a result the Underwriters subscribed for the remaining 6,569,214 shares. The Rights Issue resulted in gross proceeds to the Company of NOK 144 million through the issuance of 58,634,735 new shares.

Following the registration of the new share capital in the Norwegian Register of Business Enterprises, the Company has 91,428,874 shares outstanding, each with a par value of NOK 1.00.

## Share information

EMGS was listed at the Oslo Stock Exchange in March 2007. During the second quarter 2017, the EMGS share was traded between NOK 2.52 and NOK 3.89 per share. The last closing price before 30 June 2017 was NOK 2.63.

As of 30 June 2017, the Company had a total of 32,794,139 shares outstanding.

## Risks and uncertainty factors

EMGS is subject to a number of risk factors, of which the most important is the demand for EM services. The low oil price has resulted in a substantial decline in E&P spending, and a corresponding sharp deterioration of the market for geophysical services, including EMGS' services.

During 2015 and 2016, EMGS Board and management have implemented comprehensive cost reduction measures, including changes to the organisation to reduce the Company's cost base. This has reduced the operational cost base from USD 143 million in 2015 to USD 63 million for 2016. EMGS has continued its cost reduction program in 2017 and targets a cost base below USD 50 million for 2017, subject to operational activity.

Based on the Company's low backlog and the current market situation, there is material uncertainty related to the expected level of revenues going forward.

EMGS management follows the Company's liquidity risk closely, including weekly updates of the Company's sales forecast and vessel schedule, in addition to a corresponding update of the cost and free cash forecast. The completed rights issue of USD 17.5 million has increased the free cash position.

The ever-changing exogenous factors in the industry will impact the business and risk factors going forward and they represent added uncertainties. In addition, there are risks associated with EM marine operations which might affect the profitability of projects. Examples include: changes in governmental regulations affecting EMGS' markets, technical downtime, adverse weather conditions, licensing and permitting, as well as delays in closing revenue-generating contracts. Reference is made to the Annual Report of 2016 for a further description of other relevant risk factors.

## Outlook

The market outlook for oil services is challenging and characterised by high uncertainty. The industry has announced another decrease, albeit relatively modest, in E&P spending for 2017. However, EMGS has noted an increase in commercial activity, and with a reduced cost base and the completed rights issue, the Company has improved its position going forward.

The Company expects that the 24$^{th}$ licensing round will trigger some additional sales in Q3 2017. Otherwise, marketing efforts are ongoing to secure backlog in Asia and the Americas. The Company has commenced to commercialise parts of the Advanced CSEM System as developed under the Joint Industry Project (JIP) and a first commercial contract was announced during the second quarter of 2017.

Based on the current operational forecast, EMGS expects to operate two vessels in 2017. The Company expects to keep one vessel in Asia throughout 2017, on a pay as you go basis until 1 October, while the other vessel is expected to operate continuously in Europe and possibly the Americas. EMGS will continue to invest in its multi-client library in selected areas. Capital investment plans are limited to maintenance of existing equipment and to the JIP.

## 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 2017, 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.

Oslo, 26 July 2017
Board of Directors and CEO

# Consolidated Income Statement.

| Amounts in USD 1 000 | Q2 2017 Unaudited | Q2 2016 Unaudited | First half year 2017 Unaudited | First half year 2016 Unaudited | 2016 Audited |
|---|---|---|---|---|---|
| **Operating revenues** | | | | | |
| Contract sales | 474 | 388 | 1,175 | 13,426 | 21,797 |
| Multi-client pre-funding | 4,369 | 0 | 5,199 | 0 | 579 |
| Multi-client late sales | 5,800 | 14,678 | 8,186 | 14,678 | 22,151 |
| **Total revenues** | **10,643** | **15,066** | **14,560** | **28,104** | **44,527** |
| **Operating expenses** | | | | | |
| Charter hire, fuel and crew expenses | 885 | 3,732 | 3,652 | 9,295 | 18,176 |
| Employee expenses | 3,439 | 5,936 | 8,612 | 13,419 | 25,097 |
| Depreciation and ordinary amortisation | 1,502 | 1,932 | 2,909 | 4,043 | 7,677 |
| Multi-client amortisation | 2,312 | 2,824 | 4,604 | 5,648 | 11,244 |
| Impairment of long-term assets | 3,170 | 9,228 | 3,170 | 9,228 | 17,286 |
| Other operating expenses | 1,848 | 2,573 | 3,530 | 5,972 | 10,137 |
| **Total operating expenses** | **13,157** | **26,225** | **26,476** | **47,605** | **89,617** |
| **Operating profit/ (loss)** | **-2,515** | **-11,159** | **-11,916** | **-19,501** | **-45,090** |
| **Financial income and expenses** | | | | | |
| Interest income | 56 | 45 | 70 | 96 | 217 |
| Interest expense | -990 | -752 | -2,043 | -1,790 | -3,273 |
| Net gains/(losses) of financial assets and liabilities | 710 | -377 | 1,736 | -5,291 | -6,297 |
| Net foreign currency income/(loss) | -822 | 1,089 | -1,838 | -118 | 1,512 |
| **Net financial items** | **-1,045** | **5** | **-2,074** | **-7,103** | **-7,841** |
| **Income/ (loss) before income taxes** | **-3,560** | **-11,154** | **-13,990** | **-26,604** | **-52,931** |
| Income tax expense | 34 | 55 | 67 | 55 | -100 |
| **Income/ (loss) for the period** | **-3,594** | **-11,209** | **-14,057** | **-26,659** | **-52,831** |

# Consolidated Statement of Comprehensive Income.

| Amounts in USD 1 000 | Q2 2017 Unaudited | Q2 2016 Unaudited | First half year 2017 Unaudited | First half year 2016 Unaudited | 2016 Audited |
|---|---|---|---|---|---|
| **Income/ (loss) for the period** | **-3,594** | **-11,209** | **-14,057** | **-26,659** | **-52,831** |
| | | | | | |
| **Oher comprehensive income** | | | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | | | |
| Exchange differences on translation of foreign operations | 0 | 115 | -9 | 115 | 115 |
| Net (loss)/gain on available-for-sale (AFS) financial assets | 0 | 0 | 0 | 7,202 | 7,202 |
| | | | | | |
| **Oher comprehensive income** | **0** | **115** | **-9** | **7,317** | **7,317** |
| Actuarial gains/(losses) on defined benefit plans | 0 | 0 | 0 | 0 | 0 |
| | | | | | |
| **Other comprehensive income** | **0** | **115** | **-9** | **7,317** | **7,317** |
| | | | | | |
| **Total other comprehensive income/ (loss) for the period** | **-3,594** | **-11,094** | **-14,066** | **-19,343** | **-45,514** |

# Consolidated Statement of Financial Position.

| Amounts in USD 1 000 | Half year ended 30 June 2017 Unaudited | Half year ended 30 June 2016 Unaudited | Year ended 31 December 2016 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Multi-client library | 18,891 | 33,131 | 24,332 |
| Other intangible assets | 2,100 | 3,161 | 2,457 |
| Property, plant and equipment | 11,694 | 14,335 | 13,901 |
| Assets under construction | 29,403 | 27,796 | 28,255 |
| **Total non-current assets** | **62,088** | **78,423** | **68,945** |
| **Current assets** | | | |
| Spare parts, fuel, anchors and batteries | 6,963 | 8,555 | 7,854 |
| Trade receivables | 9,413 | 19,545 | 8,534 |
| Other receivables | 6,536 | 7,259 | 7,080 |
| Cash and cash equivalents | 12,054 | 21,220 | 14,038 |
| Restricted cash | 4,870 | 4,199 | 4,841 |
| **Total current assets** | **39,837** | **60,778** | **42,347** |
| **Total assets** | **101,924** | **139,201** | **111,292** |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders** | | | |
| Share capital, share premium and other paid-in equity | 319,283 | 319,174 | 319,283 |
| Other reserves | -1,616 | 901 | -1,608 |
| Retained earnings | -299,033 | -261,313 | -284,975 |
| **Total equity** | **18,634** | **58,762** | **32,700** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Provisions | 21,918 | 15,598 | 19,140 |
| Financial liabilities | 3,400 | 3,662 | 4,668 |
| Borrowings | 29,751 | 32,180 | 31,636 |
| **Total non-current liabilities** | **55,069** | **51,440** | **55,444** |
| **Current liabilities** | | | |
| Trade payables | 3,619 | 6,743 | 6,672 |
| Current tax liabilities | 5,853 | 5,814 | 5,853 |
| Other short term liabilities | 9,967 | 16,247 | 10,372 |
| Borrowings | 8,781 | 195 | 251 |
| **Total current liabilities** | **28,221** | **28,999** | **23,148** |
| **Total liabilities** | **83,290** | **80,439** | **78,592** |
| **Total equity and liabilities** | **101,924** | **139,201** | **111,292** |

# Consolidated Statement of Cash Flows.

| Amounts in USD 1 000 | Q2 2017 Unaudited | Q2 2016 Unaudited | First half year 2017 Unaudited | First half year 2016 Unaudited | 2016 Unaudited |
|---|---|---|---|---|---|
| **Net cash flow from operating activities** | | | | | |
| Income/(loss) before income taxes | **-3,560** | **-11,154** | **-13,990** | **-26,604** | **-52,931** |
| **Adjustments for:** | | | | | |
| Withholding tax expenses | 0 | 74 | 4 | 951 | 1,219 |
| Total taxes paid | -22 | 44 | -71 | -449 | -522 |
| Depreciation and ordinary amortisation | 1,502 | 1,932 | 2,909 | 4,043 | 7,677 |
| Multi-client amortisation and impairment | 5,482 | 12,052 | 7,774 | 14,876 | 27,722 |
| Impairment of other long term assets | 0 | 0 | 0 | 0 | 808 |
| Cost of share-based payment | 11 | 62 | 0 | 136 | 245 |
| Change in trade receivables | -6,077 | -3,912 | -879 | -965 | 10,046 |
| Change in inventories | 602 | 1,948 | 891 | 3,199 | 3,900 |
| Change in trade payables | -1,231 | 467 | -3,053 | -3,697 | -3,767 |
| Change in other working capital | 745 | 5,269 | 4,001 | 5,025 | 2,317 |
| Financial gain on bond repayment | 0 | 0 | -836 | 0 | 0 |
| Amortisation of interest | 600 | 605 | 1,205 | 1,198 | 2,413 |
| **Net cash flow from operating activities** | **-1,948** | **7,387** | **-2,045** | **-2,287** | **-873** |
| **Investing activities:** | | | | | |
| Purchase of property, plant and equipment | -915 | -764 | -1,343 | -1,350 | -3,398 |
| Investment in multi-client library and JIP test | -3,000 | -3,996 | -3,963 | -5,740 | -11,500 |
| Sale of financial assets | 0 | 0 | 0 | 1,375 | 1,375 |
| **Cash used in investing activities** | **-3,915** | **-4,760** | **-5,306** | **-5,715** | **-13,523** |
| **Financial activities:** | | | | | |
| Financial lease payments - principal | -54 | -78 | -97 | -218 | 141 |
| Proceeds from new loan | 5,487 | 0 | 8,500 | 0 | 0 |
| Repayment/settlement of loan and FRA | 0 | -734 | -1,954 | -1,143 | -1,143 |
| Payment of interest on bonds | -511 | -574 | -1,082 | -1,166 | -2,313 |
| **Cash used in/provided by financial activities** | **4,922** | **-1,386** | **5,367** | **-2,527** | **-3,315** |
| **Net change in cash** | **-941** | **1,242** | **-1,984** | **-10,529** | **-17,711** |
| Cash balance beginning of period | 12,995 | 19,978 | 14,038 | 31,749 | 31,749 |
| Cash balance end of period | 12,054 | 21,220 | 12,054 | 21,220 | 14,038 |
| **Net change in cash** | **-941** | **1,242** | **-1,984** | **-10,529** | **-17,711** |

# Consolidated Statement of Changes in Equity.

| Amounts in USD 1 000 | Share capital share premium and other paid-in-capital | Foreign currency translation reserves | Available-for-sale reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance as of 1 January 2016** | **319,038** | **-1,722** | **-7,202** | **-232,144** | **77,970** |
| Income/(loss) for the period | 0 | 0 | 0 | -15,451 | -15,451 |
| Other comprehensive income | 0 | 0 | 7,202 | 0 | 7,202 |
| **Total comprehensive income** | **0** | **0** | **7,202** | **-15,451** | **-8,249** |
| Cost of share-based payments | 75 | 0 | 0 | 0 | 75 |
| **Balance as of 31 March 2016 (Unaudited)** | **319,113** | **-1,722** | **0** | **-247,595** | **69,794** |
| Income/(loss) for the period | 0 | 0 | 0 | -11,209 | -11,209 |
| Other comprehensive income | 0 | 115 | 0 | 0 | 115 |
| **Total comprehensive income** | **0** | **115** | **0** | **-11,209** | **-11,094** |
| Cost of share-based payments | 62 | 0 | 0 | 0 | 62 |
| **Balance as of 30 June 2016 (Unaudited)** | **319,175** | **-1,607** | **0** | **-258,804** | **58,762** |
| Income/(loss) for the period | 0 | 0 | 0 | -11,064 | -11,064 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 0 |
| **Total comprehensive income** | **0** | **0** | **0** | **-11,064** | **-11,064** |
| Cost of share-based payments | 59 | 0 | 0 | 0 | 59 |
| **Balance as of 30 September 2016 (Unaudited)** | **319,233** | **-1,607** | **0** | **-269,868** | **47,757** |
| Income/(loss) for the period | 0 | 0 | 0 | -15,107 | -15,107 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 0 |
| **Total comprehensive income** | **0** | **0** | **0** | **-15,107** | **-15,107** |
| Cost of share-based payments | 50 | 0 | 0 | 0 | 50 |
| **Balance as of 31 December 2016 (Audited)** | **319,283** | **-1,607** | **0** | **-284,975** | **32,700** |
| Income/(loss) for the period | 0 | 0 | 0 | -10,464 | -10,464 |
| Other comprehensive income | 0 | -8 | 0 | 0 | -8 |
| **Total comprehensive income** | **0** | **-8** | **0** | **-10,464** | **-10,472** |
| Cost of share-based payments | -11 | 0 | 0 | 0 | -11 |
| **Balance as of 31 March 2017 (Unaudited)** | **319,272** | **-1,615** | **0** | **-295,439** | **22,218** |
| Income/(loss) for the period | 0 | 0 | 0 | -3,594 | -3,594 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 0 |
| **Total comprehensive income** | **0** | **0** | **0** | **-3,594** | **-3,594** |
| Cost of share-based payments | 11 | 0 | 0 | 0 | 11 |
| **Balance as of 30 June 2017 (Unaudited)** | **319,283** | **-1,616** | **0** | **-299,033** | **18,634** |

# Notes.

## 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 conjunction with the Group's annual financial statements as of 31 December 2016, which is available on www.emgs.com.

## 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 million | Q2 2017 Unaudited | Q2 2016 Unaudited | YTD 2017 Unaudited | YTD 2016 Unaudited | 2016 Audited |
|---|---|---|---|---|---|
| Americas | **0.3** | 4.5 | 0.5 | 4.7 | 5.4 |
| Asia/Pacific | **0.0** | 0.5 | 0.2 | 13.0 | 20.6 |
| EAME | **10.3** | 10.1 | 13.9 | 10.5 | 18.5 |
| **Total** | **10.6** | **15.1** | **14.6** | **28.2** | **44.5** |

## Multi-client library

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

Updated sales forecasts for multi-client projects in the US Gulf of Mexico, Canada and Indonesia indicated possible impairments. The recoverable amounts for these projects were calculated, and the carrying amount exceeded the recoverable amounts by USD 3.2 million. An equivalent impairment charge has therefore been booked in the second quarter of 2017.

| Amounts in USD million | Q2 2017 Unaudited | Q2 2016 Unaudited | Half year ended 30 June 2017 Unaudited | Half year ended 30 June 2016 Unaudited | Year ended 31 December 2016 Audited |
|---|---|---|---|---|---|
| Opening carrying value | **21,6** | 41,2 | 24,3 | 42,3 | 42,3 |
| Additions | **2,7** | 4,0 | 3,7 | 5,7 | 9,8 |
| Amortisation charge | **-2,3** | -2,8 | -4,6 | -5,6 | -11,2 |
| Impairment | **-3,2** | -9,2 | -3,2 | -9,2 | -16,5 |
| Cash contribution from partners | **0,0** | 0,0 | -1,4 | 0,0 | 0,0 |
| **Closing carrying value** | **18,9** | **33,1** | **18,9** | **33,1** | **24,3** |

## 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 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 EMGS' 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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