

# EMGS ANNUAL REPORT 2017.





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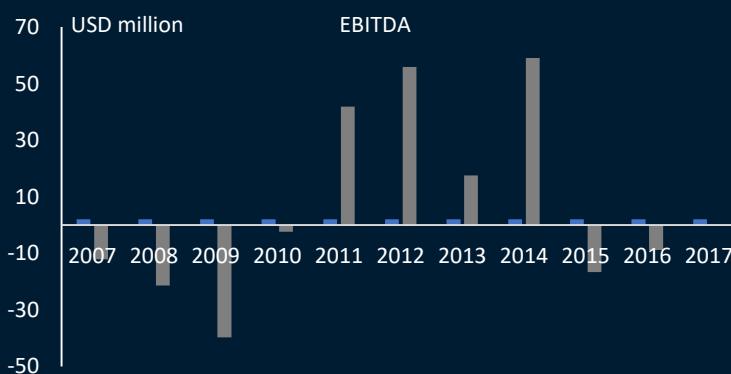
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# EMGS technology.

The electromagnetic (EM) technology used by EMGS in its survey projects can be divided into two distinct methods: controlled-source electromagnetic (CSEM) surveying and magnetotelluric (MT) surveying.

## CSEM

When performing a CSEM survey, a powerful horizontal electric dipole source is towed above the seafloor. The dipole source transmits a low-frequency electromagnetic signal into the subsurface. The resistivity of the rocks defines the way the electromagnetic energy transmitted by the dipole propagates through the subsurface. High resistivity is an indicator for a possible hydrocarbon-filled reservoir.

Multi-component seabed receivers measure the electromagnetic energy that has propagated through the sea and the subsurface. The information from these receivers is processed and inverted to produce a 3D resistivity image from the survey area. EMGS deploys grids of receivers to acquire full-azimuth surveys providing optimal illumination of the subsurface.

CSEM surveying is a valuable supplement to information on structure and deposition of sediments provided from seismic techniques. The combination of the two techniques (CSEM and seismic) together with other complementary subsurface information forms a valuable set of exploration tools, as charge, seal and volumetrics of the prospects are better defined and understood.

## MT

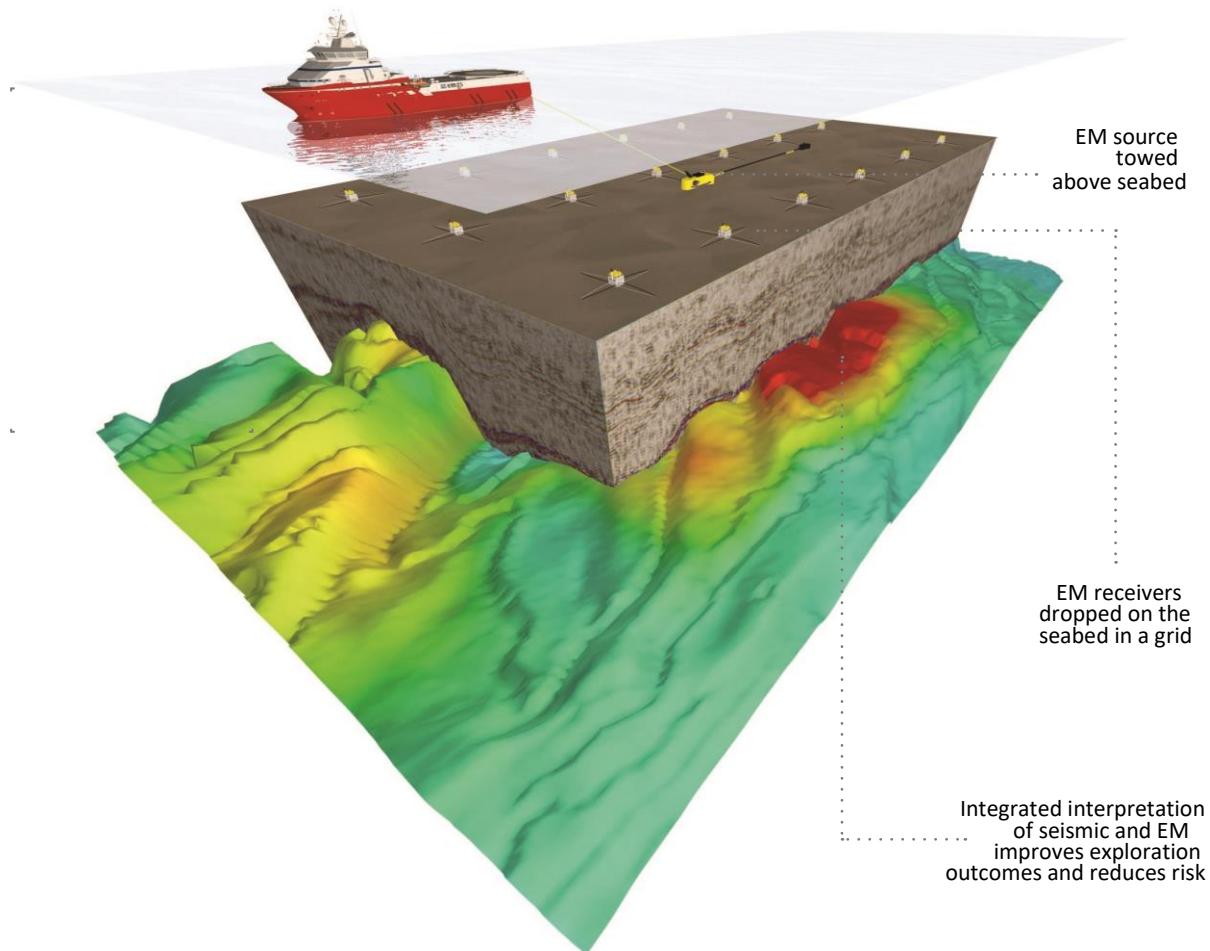
Similar to CSEM surveying, the MT technique generates insight into the subsurface by imaging subsurface resistivity.

Marine MT surveys map subsurface resistivity variations by measuring naturally occurring electromagnetic fields on the seabed. The naturally fields are generated by the interactions of solar wind with the Earth's magnetic field, which, when strong, are known as geomagnetic storms. The MT fields are of very low frequency, which offers excellent depth penetration. The unique design and sensitivity of the EMGS seabed receivers enables EMGS to efficiently acquire high quality MT data as part of a CSEM survey when the controlled source is inactive.

The low-frequency, deep-sensing nature of MT surveying makes the technique valuable for imaging and interpreting regional geology. MT surveys have been found most useful in salt and basalt settings where the flanks and/or the base are not well controlled. MT measurements can, therefore, form a useful complement to seismic techniques, particularly in settings where high-impedance volcanic rocks or salt make the imaging and interpretation of seismic challenging.

## Application of EM technology

The services offered by EMGS are used in all stages of the offshore exploration and development cycle. Applications of EMGS' technology include evaluating regional prospectivity, ranking of identified prospects and validating of discoveries.



### Regional Prospectivity

At the early stages of the exploration and production process, oil and gas companies as well as other customers of EMGS (e.g. government agencies) use EM services to evaluate whether an offshore acreage is viable for commercial production of hydrocarbons. EM surveys are conducted before licensing decisions to better understand the acreage value and potential of leads and prospects mapped with seismic. EM may also be used to de-risk new unproven plays and generate leads. Adopting EM early in the exploration cycle helps oil and gas companies focus their investments on the most valuable acreage.

### Prospect Ranking and Portfolio Polarisation

When a prospect is identified from seismic information, EM surveys can help operators reduce uncertainties in its probability of success and expected hydrocarbon volume, resulting in a more reliable economic evaluation of the prospect. When EM surveying is used over a portfolio of prospects, the prospect evaluations become polarised, enabling operators to upgrade or downgrade prospects before making drilling decisions. Using EM to rank prospects reduces risk of drilling dry wells while increasing the economic success of exploration projects.

### Field Appraisal

Once a discovery is made, EM surveys can be used to ascertain a field's commercial viability and aid in development planning by improving reservoir delineation. EM can also assist in the positioning of subsequent development wells and can be used to reduce the number of appraisal wells that would typically be required for a field.

## Development of EM technology

### Development of marine EM equipment

In 2017 EMGS took the JIP project to the next step and commercialised the source system, called DeepBlue. The DeepBlue source system consist of a top side unit, slip ring, umbilical, subsea unit and antenna. In addition, the onboard handling equipment was upgraded to meet the commercial requirements for marine operation.

Following commercialisation of DeepBlue, the first commercial survey was performed in July 2017. The commercial offering is a stronger source output combined with increased flexibility for creating the waveform output.

The DeepBlue opens a new market for EMGS as it increases the depth of investigation (below mudline) well beyond the capabilities of the conventional source systems. In addition, the new source also increases imaging confidence and resolution for targets that can already be detected with the conventional source system. The main improvements in source hardware include an increase by 7 to 10 of the source output (compared with the conventional source), an increase by 10 of source timing accuracy and increase by 4 of the source frequency output. The DeepBlue can operate in water depths up to 4,000 m.

All data acquired with DeepBlue to date confirms the ability to increase sensitivity and resolution through combination of higher source output, increased frequency bandwidth and better accuracy, which allows to image deeper and smaller targets. As a result, DeepBlue has the potential to increase the addressable market for frontier exploration as well as help opening up new markets for EM such as near-field exploration and appraisal.



### Software development

Several commercial projects using the Gauss-Newton and TTI inversions introduced in 2016 have been completed as customers started to appreciate the high imaging quality and reliability provided by these new generation imaging tools. Further enhancements and efficiency gains to the Gauss-Newton inversion have been developed through customer funding, making the software more user friendly and ready for large scale application.

To address the increased exploration focus in shallower waters, up-down wavefield separation has been implemented in EMGS' sensitivity modeling and associated prospect evaluation software. Up-down wavefield separation is a shallow water processing technique, which takes advantage of EMGS' unique magnetic field measurement capabilities to enhance sensitivity of CSEM in shallow water. The algorithm is also available in all of EMGS' imaging tools.

The receiver and source calibration software has been expanded to the full frequency bandwidth provided by the new DeepBlue source. Apart from matching the data processing accuracy to the high accuracy of the DeepBlue hardware, this development has also been an important enabler for the first ever high-resolution CSEM survey with frequencies up to 50 Hz, acquired over a survey in the Barents Sea.

# Board of Directors.

## Eystein Eriksrud, Chairman of the Board



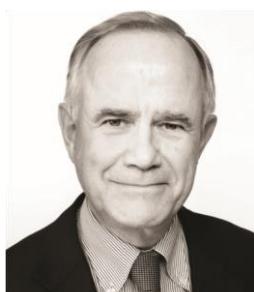
Eystein Eriksrud is the Deputy CEO of the Siem Industries Group. He is chairman of Siem Offshore Inc., Flensburger Schiffbaugesellschaft mbH and a director of Subsea 7 S.A and certain subsidiaries in the Siem Industries Group. Prior to joining Siem Industries in October 2011, Eystein Eriksrud was partner of the Norwegian law firm Wiersholm Mellbye & Bech, working as a business lawyer from 2005 with an internationally oriented practice in mergers and acquisitions, company law and securities law, particularly in the shipping, offshore and oil service sectors. He was Group Company Secretary of the Kvaerner Group from 2000-2002 and served as Group General Counsel of the Siem Industries Group from 2002-2005. He is a Norwegian citizen.

## Petteri Soininen, Board member



Petteri Soininen is Partner at RWC Partners and Co-Head of the RWC European Focus Fund. He has been responsible for the RWC European Focus Fund since February 2009 and oversees and manages all engagement activities with companies in the fund's portfolio. He has served as member of the Supervisory Board of AMG Advanced Metallurgical Group N.V and worked as strategy consultant with The Boston Consulting Group (BCG) in both Europe and the US. He has over 20 years of experience in collaborating with top management to design and implement change programs including major transformations to deliver sustainable shareholder value. Petteri holds a MSc (with distinction) in Industrial Engineering from the Helsinki University of Technology and is a Finnish citizen.

## Johan Kr. Mikkelsen, Board member



Johan Kr. Mikkelsen is the Chief Technology Officer of Perestroika AS. Johan has 40 years' experience from Norsk Hydro and Statoil. He entered the oil and gas industry at the Mongstad refinery in 1974 as process engineer and a couple of years later as Production Manager at the refinery. In 1983 he moved on as Production Director for Oseberg field and in 1992 as SVP for Norsk Hydro drilling. In 2000 he continued as SVP for Oseberg asset and in 2003 as SVP for the Troll asset. In 2005 he became Country manager for Norsk Hydro Canada before he moved on as Peregrino Project Director and later Production Director for the Peregrino field in Brazil. In 2012 he returned to Norway as VP for the Statoil Subsea Improvement Project until early 2014 when he retired from Statoil. Johan Kr Mikkelsen holds a Master degree from NTH from 1973 in Industrial Chemistry and a Master degree in Chemical Engineering from University of Wisconsin, USA in 1979. Johan is a Norwegian citizen.



#### Mimi Berdal, Board member

Mimi Berdal runs an independent legal and corporate counseling business. She holds a Cand. Jur. (law) degree from the University of Oslo and is admitted to the Norwegian Bar Association.

Mimi Berdal is also Chairman of the Board of Gassco AS and a member of the Board of Directors of the listed companies Interoil E&P ASA, Itera ASA and Vistin Pharma ASA. She is a Norwegian citizen.



#### Anne Øian, Board member

Anne Øian has extensive management experience, mainly from the banking industry, where she has worked with clients from the shipping and offshore industries, as well as experience from directorships in large international companies. She has held various positions in DNB from 1975 to 2015, including Global Head of Shipping. Anne Øian has served on the Board of Statoil, GIEK and the Norwegian School of Management (BI), as well as a number of other boards.

Anne Øian holds a Master degree from the Norwegian School of Management and is a Norwegian citizen.



#### Adam Robinson, Board member

Adam Robinson received an MSc in Physics from NTNU in Norway after completing his BSc at Lancaster University in England.

He worked six years offshore for EMGS as a Field Geophysicist, Instrument Engineer and Offshore Manager.

For the last six years he has been the Operations Manager for the EMEA region. Adam has been an EMGS employee since 2005 and is a British citizen.



#### Marte Karlsen, Board member

Marte Karlsen graduated from NTNU in 1999 and holds a Cand.Mag. in English and Political Science.

She has experience from working in an international environment and with international trade, and she has lived in Germany for several years.

For the last 8 years Marte has been the Crewing Manager in EMGS and part of the acquisition management group. Marte has been an EMGS employee since 2010 and is a Norwegian citizen.

# Board of Directors' Report.

2017 was a challenging year for the oil services industry and EMGS. Since the start of the oil price decline in 2014, oil companies have substantially reduced their spending in conventional offshore hydrocarbon exploration and development activities, resulting in a decline in revenues for many suppliers in the industry, including EMGS.

EMGS responded to the reduction in revenues by significantly reducing its cost base. This cost reduction programme started in 2015 and continued through 2017. The Company has reinforced its strong cost focus and culture, and reduced costs throughout the organisation, by an organisational re-adjustment, a significant reduction in head count, a reduction of the fleet size and a renewal of vessel charter agreements at improved terms. The new cost level is deemed to be appropriate for EMGS going forward.

EMGS has experienced that the industry's interest in using the EM technology is progressing, although challenged by reduced budgets and spending in the conventional offshore hydrocarbon exploration and development segment of the oil and gas industry.

The Board expects the market outlook to continue to be challenging and characterised by high uncertainty in 2018.

## About EMGS

### Vision, Values and Strategy

Electromagnetic Geoservices ASA ("EMGS" or the "Company"), with its subsidiaries (together, the "Group"), is the global leader in electromagnetic ("EM") surveying technology in the offshore oil and gas exploration industry.

EMGS' vision is ***to make EM an integral part of the E & P workflow and make EM as fully adopted as seismic. By providing EM data integrated with other subsurface measurement we enable our customers to reduce uncertainty and therefore increase success in their exploration and development programmes.***

EMGS' core values are: Integrity, Commitment, Innovation and Quality. These values form an integral part of our organisation and operations and are included as a topic in the Company's annual employee appraisal process and highlighted in organisational surveys used to measure the organisational effectiveness.

EMGS is constantly working to deliver the best quality product to its customers. The technology is further developed to improve quality and efficiency, as well as to broaden the scope of the products to increase the Company's addressable market. EMGS also put a high priority on interacting with its customers, to assist in ensuring the full value of the service is captured.

The integration of EM methods into exploration workflows provides oil and gas companies with an improved de-risking and appraisal tool compared to using traditional exploration techniques alone. The use of EM data is complementary to the use of seismic data, as it provides oil companies with more information about the subsurface. Integrating the use of EM data into the exploration workflow reduces exploration risk through a better understanding of a reservoir's charge, seal and volume estimates.

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

EMGS has conducted over 900 surveys across the world's mature and frontier basins in water depths ranging from 20 to 3500 metres for more than 150 customers. EM surveys have been conducted under a wide variety of operating conditions and in most major basins around the world.

EMGS' strategy is that the Company shall have a flexible and scalable business model. This will be assured by maintaining an asset-light operating model, including chartering all its vessels from third-party vessel owning companies. The Group shall undertake a mix of contract work and multi-client projects. The International Oil Companies (IOCs) part of the Company's market is becoming more focused on the multi-client business model. However, the Company's key National Oil Company (NOCs) customers continue to solicit contract work arrangements as the preferred business model.

The flexibility and scalability of the business model comes mainly from the following two arrangements: the chartering of vessels and the ability to undertake a combination of contract work and multi-client projects.

EMGS has used its flexible business model to downscale its operations to reduce the Company's cost base. The Company will however seek to scale the organisation up when the market improves and the demand for EM services increases.

In line with this strategy, EMGS reduced the fleet from four to two vessels in 2016. In January 2017, EMGS entered into an extended charter agreement of 2 years for the vessel *BOA Thalassa* at new and improved commercial terms; i.e. approximately 20% below the previous contract and additional flexibility ('pay as you go') during six months in 2017. EMGS had, as of 31 December 2017, two vessels on charter; the *BOA Thalassa* owned by the BOA Group (BOA SBL AS) and the *Atlantic Guardian* owned by North Sea Shipping AS.

EMGS coordinates its activities from its headquarters in Trondheim (Norway) and has offices in Oslo (Norway), Houston (USA) and Kuala Lumpur (Malaysia). The Group also has offices in Rio de Janeiro (Brazil), Mumbai (India) and Villahermosa (Mexico).

EMGS was listed on the Oslo Stock Exchange in March 2007. In June 2017, the Company's registered share capital was reduced by NOK 295,147,251 through a reduction of the par value of each share in the Company from NOK 10.00 to NOK 1.00 per share. Following the rights issue completed in July 2017, where a total of 58,634,735 new shares were issued, the Company has a registered share capital of NOK 91,428,874, consisting of 91,428,874 shares with a par value of NOK 1.00 per share.

## EM technology

The EM technology used by EMGS in its EM survey projects can be divided into two distinct methods: three-dimensional full azimuth controlled-source EM (3D CSEM) surveying and magnetotelluric (MT) surveying. For more information on the different methods, please see a separate section in the annual report, EMGS technology.

## Important events in 2017

### Technology and operational development

#### The JIP

EMGS has been working on a Joint Industry Project ("the JIP"), supported by Shell and Statoil, for developing the Next Generation EM equipment. This project started in 2009, the agreement with Shell and Statoil was formalised in 2012 and in 2016 a prototype of the new equipment set was successfully tested offshore Norway.

In 2017, EMGS took the JIP project to the next step and commercialised the source system, called DeepBlue. The DeepBlue source system consist of a top side unit, slip ring, umbilical, sub-sea unit and antenna. In addition, the onboard handling equipment was upgraded to meet the commercial requirements for marine operation.

Following commercialisation of DeepBlue, the first commercial survey was performed in July 2017. The commercial offering is a stronger source output combined with increased flexibility for creating the waveform output.

The DeepBlue opens a new market for EMGS as it increases the depth of investigation (below mudline) well beyond the capabilities of the conventional source systems. In addition, the new source also increases imaging confidence and resolution for targets that can already be detected with the conventional source system. The main improvements in source hardware include an increase by 7 to 10 of the source output (compared with the conventional source), an increase by 10 of source timing accuracy and increase by 4 of the source frequency output. The DeepBlue can operate in water depths up to 4,000 m.

The carrying value of the JIP as of 31 December 2017 was USD 32 million, recorded as property, plant and equipment. EMGS has received prepayments from Shell and Statoil. These are recorded as provisions and amounted to USD 21 million per 31 December 2017.

#### Other equipment developments

EMGS works on incremental improvements to the standard suite of 3D CSEM equipment, including receivers, the source and the navigation system, supporting a more efficient operation and improved data quality.

#### Software development

Several commercial projects using the Gauss-Newton and TTI inversions introduced in 2016 have been completed in 2017 as customers started to appreciate the high imaging quality and reliability provided by these new generation imaging tools. Further enhancements and efficiency gains to the Gauss-Newton inversion have been developed through customer funding, making the software more user friendly and ready for large scale application.

To address the increased exploration, focus in shallower waters, up-down wavefield separation has been implemented in EMGS' sensitivity modelling and associated prospect evaluation software. Up-down wavefield separation is a shallow water processing technique, which takes advantage of EMGS' unique magnetic field measurement capabilities to enhance sensitivity of CSEM in shallow water. The algorithm is also available in all of EMGS' imaging tools.

The receiver and source calibration software has been expanded to the full frequency bandwidth provided by the new DeepBlue source. Apart from matching the data processing accuracy to the high accuracy of the DeepBlue hardware, this development has also been an important enabler for the first ever high-resolution CSEM survey with frequencies up to 50 Hz., acquired in the Barents Sea.

EMGS continues the commercialisation of EMGS' developed software. The aim of making the software available to our customers is to make it easier for customers to embed 3D CSEM data into their geophysical and exploration workflows. The commercially available software also includes a prospect evaluation software. This has been well received by a large number of key customers.

### **Multi-client investments**

Since 2008, EMGS has invested in its multi-client data library. The Company's multi-client business has become an increasingly important part of the overall business, both in terms of revenues and in terms of marketing value as the Company can more freely share 3D CSEM successes with its existing and new customers. The multi-client business model is well suited for partnerships with seismic players and authorities and reduces the unit cost of EM data for the industry. In 2017, the revenues from multi-client sales amounted to 90% of the total revenues, up from 51% in 2016 and from 45% in 2015.

#### EMGS key multi-client libraries

At the end of 2017, the Group's most important multi-client libraries are in the following countries/basins: Norway, Mexico, the US Gulf of Mexico, Canada, Indonesia, India and Brazil. The total carrying value of the library was USD 16.3 million at the end of 2017. The major part of the carrying value of the multi-client library is related to the library in Norway.

#### **Norway**

The Group has acquired approximately 86,000 square kilometres of 3D CSEM data in Norway, of which approximately 70,000 square kilometres is in the Barents Sea. The Barents Sea has proven to be a very important showcase as EMGS has been able to successfully demonstrate its value in the de-risking process of exploration and appraisal projects. In 2017, the Company acquired data on ten multi-client projects in Norway; eight projects in the Barents Sea and two projects in the Norwegian Sea.

In 2017, multi-client revenues in Norway amounted to USD 29.7 million.

#### **US Gulf of Mexico**

EMGS completed its first commercial multi-client project in the US Gulf of Mexico in 2014. In total, EMGS acquired approximately 14,500 square kilometres of 3D CSEM data in this basin. Opening up the US Gulf of Mexico with 3D CSEM data is a natural extension of the Company's 3D CSEM data and knowledge across the border on the Mexican side.

Whilst the region remains strategically important for the Company, the industry noted a reduction in drilling activity. As a result, and further to quarterly impairments testing, the Group recorded an impairment of the multi-client library in the US Gulf of Mexico of USD 1.0 million in 2017.

#### **Mexico**

In 2016, EMGS acquired the rights to license 16,000 square kilometres of 3D CSEM data to the industry from CNH, the regulator in Mexico. The data was originally acquired by the Company on a proprietary basis. After reprocessing the data, the data has been made available for sale to the industry and the Company recorded one sale of the Mexico data in 2017.

#### **Canada**

EMGS completed a multi-client project in Canada in 2014, including approximately 2,500 square kilometres of 3D CSEM data. The survey targeted the Flemish Pass Basin, where major oil discoveries have been made. The Company recorded an impairment of the multi-client library in Canada of USD 1.8 million in 2017.

In 2017, EMGS acquired approximately 340 square kilometres of data west of Newfoundland in Canada. The survey was pre-funded, and the Company recorded revenues of USD 2.5 million in Canada in 2017.

#### ***India***

During 2016, EMGS acquired a relatively small amount of multi-client data along the west coast of India. The Company has experienced interest to sell the data, but the project has so far not generated sales.

#### ***Indonesia***

EMGS acquired multi-client 3D CSEM data in Indonesia in 2015. The total investment in India in 2015 resulted in adding about 2,300 square kilometres to the Company's global library.

The Company recorded an impairment of the multi-client library in Indonesia of USD 0.9 million in 2017.

#### ***Brazil***

EMGS acquired 15,000 square kilometres of multi-client 3D CSEM data in Brazil between 2011 and 2013.

### **Sales and customers**

The Group's revenues reduced from USD 44.5 million in 2016 to USD 35.9 million in 2017, reflecting the challenging market for the oil services industry in general and 3D CSEM in particular. Sales were dominated by activity in Norway whereas several international projects matured in Asia and the Americas during the year.

The EMGS sales organisation consists of commercial sales, technical advisors and exploration advisors. The Company has maintained its presence in key markets to make sure the sales force is located as close as possible to its target markets. As part of the sales strategy, and in addition to the various hardware and software improvements pursued and marketed by the Company, we have invested in developing and marketing applicable workflows to complement traditional seismic based exploration workflows with CSEM. Prospect evaluation methodology using CSEM is commercialized in our EMU software.

### **Other important events**

#### Cost reduction measures

In January 2017, EMGS entered into an extended charter agreement of 2 years for the vessel *BOA Thalassa* with the owners BOA SBL AS at new and improved commercial terms, i.e. approximately 20% below the previous contract and additional flexibility ('pay as you go') during six months in 2017.

Furthermore, the Company has continued its strong focus on general cost control and identifying reductions related to the organisation and in connection with operational activities.

#### Financing

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 a nominal amount of NOK 24 million was bought back.

In July 2017, EMGS completed a rights issue. The Rights Issue resulted in gross proceeds to the Company of NOK 144 million through the issuance of 58,634,735 new shares.

#### Norwegian licensing rounds

The Norwegian licensing system consists of two different kinds of licensing rounds; numbered licensing rounds for frontier areas and awards in predefined areas (APA) for more developed acreage. The numbered licensing rounds are normally announced every other year, while the APA round follows a

fixed annual cycle. Based on the Company's track record, the licensing rounds in Norway represent important revenue opportunities.

In connection with preparations for the 24<sup>th</sup> license round, the Company conducted a number of pre-funded multi-client surveys on the Barents Sea in 2017. The license awards in the 24<sup>th</sup> license round is expected to be announced in June 2018.

In the APA2016 awards (announced in January 2017), two production license groups included EM acquisition in its work commitment, and four other production licenses included EM feasibility studies as part of their work commitment.

#### Joint Industry Project

Following the successful prototype test of a new source in 2016 further investments were made in 2017 to make the new developed source (DeepBlue) available to the industry. The first commercial project with the DeepBlue was completed in 2017. The availability of the new source in the Company's arsenal has allowed the Company to engage in technical discussions and scoping of projects previously out of reach.

#### Canada

In November 2017, the Company carried out a pre-funded multi-client acquisition in Canada.

### Events after the balance sheet date

#### Financing

On 2 March 2018, the Company announced a proposed comprehensive refinancing (the "Comprehensive Refinancing"). The Comprehensive Refinancing consists of two elements; (i) a rights issue with gross proceeds of up to USD 12.5 million, whereof USD 10.0 million is underwritten (the "Rights Issue"); and (ii) issuance of a new, fully underwritten convertible bond loan with a total nominal amount of up to USD 32.5 million (the "Bond Issue").

The rights issue will provide the Company with financing for general corporate purposes.

The net proceeds from the Bond Issue will be used to refinance the Company's existing bond issue. The proposed terms of the Bond Issue include a reduction of the free cash covenant (USD 2.5 million compared with USD 10 million under current bond loan), denomination in USD (new interest rate based on 3M USD LIBOR plus a margin of 5.5 per cent, compared with 3M NIBOR plus a margin of 6.0 per cent under current bond loan), an extension of the maturity (2023 compared with 2019 under current bond loan) and a conversion price equal to 135% of the subscription price in the Rights Issue.

The Comprehensive Refinancing will provide the Company with a significantly improved financial runway, stability and flexibility.

On 8 March 2018, EMGS entered into a USD 4.0 million short term loan agreement with Siem Investments Inc to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company's existing bond loan. Siem Investments Inc will receive interest of 3 months USD LIBOR plus 6.0% per annum. At the date of this Annual Report, no drawdown has been made by the Company under the loan. Siem Investments Inc is a shareholder in the Company and represented at the board of directors.

#### Provision for indemnity liability

Under an indemnity obligation, EMGS carries certain financial exposure related to a dispute involving one of its suppliers. Based on certain recent developments and advice received by EMGS from its legal advisors, a provision in the amount of USD 750,000 has been made for this exposure. This figure consists of EMGS' best estimate of its principal exposure, plus its expenses and legal fees related to handling the matter and protecting EMGS' interests.

## Factors affecting the results of operations

The Group's operational results depend on several factors, where the most important ones are considered to be: demand for EM services, fleet status and vessel utilisation and the charter terms of the Company's vessels.

### Demand for EM services

The Company has two main sources of revenue: contract sales and multi-client sales. In addition, the Company receives some revenue related to consultancy, processing services and software sales. These revenues are presented as contract sales. For more information on the different revenue sources, please see the notes to the financial statements.

The overall demand for EMGS' services is dependent, in part, on offshore oil and gas E&P budgets. The low oil price environment between mid-2014 and 2016 resulted in reduced E&P spending by oil companies, in particular spending related to conventional offshore hydrocarbon exploration activities. The Board is of the opinion that although there are signs that the demand for EM services may increase in 2018, it must be assumed that 2018 will be another year with considerable uncertainty related to the exploration service provider industry in general, and for the Company's services in particular.

### Fleet status and utilisation

As per the end of 2017, the Company chartered two vessels, i.e. BOA Thalassa and Atlantic Guardian.

The *BOA Thalassa* has a firm charter until 1 October 2019. *Atlantic Guardian*, has a firm charter agreement until 30 September 2021. Both agreements provide an option to the Company to extend the charter period.

The vessels operated over the course of 2017 in Norway and Canada. In addition, BOA Thalassa performed sea trials and steaming in preparation for two multi-client projects in Indonesia (these activities are not included in the vessel utilisation figures).

In total, EMGS recorded a total of 18.0 vessel months in 2017, an average of 4.5 per quarter, compared with 22.8 vessel months in 2016 and an average of 5.7 per quarter in 2016. The Company had a vessel utilisation of 56% in 2017, down from 70% in 2016. The vessel utilisation for the year was allocated 55% to multi-client projects and 1% to a funded R&D project.

EMGS' 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. Technical downtime was kept at a minimum over the course of 2017.

### Seasonality

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 and or as revenues are related to licensing rounds in Norway and abroad.

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 the 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.

## Financial statements

### Going concern

The Group has prepared its financial statements under the going concern assumption, and the Board confirms in accordance with Section 3-3a of the Norwegian Accounting Act that the going concern assumption is applicable. The Group's reported results, its business strategy, its current budgets and financing, as well as its long-term strategic forecasts provide the basis for the going concern assumption.

As of 31 December 2017, the carrying value of equity was USD 27.9 million, down from USD 32.7 million at the end of 2016. The free cash balance at the end of 2017 was USD 16.5 million.

See "Events after the balance sheet date" for actions taken in 2018 to improve the financial position. The Comprehensive Refinancing is expected to provide the Company with a significantly improved runway, financial flexibility and stability.

### Results of operations

The year ending 31 December 2017 is compared in the section below with the year ending 31 December 2016.

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

#### Revenues and operating expenses

In 2017, the Group recorded revenues of USD 35.9 million, down from USD 44.5 million in 2016. Contract sales and other revenue ended at USD 3.5 million, while multi-client sales totalled USD 32.4 million. USD 13.3 million was recorded as pre-funding multi-client revenues and USD 19.1 million was recorded as late sales multi-client revenues. In 2016, USD 21.8 million was recorded as contract sales, while multi-client sales totalled USD 22.7 million. This means that the sales from the multi-client projects accounted for 90% of the revenues in 2017, compared with 51% in 2016.

The decrease in revenues from 2016 to 2017 can mainly be explained by a reduction in proprietary work and a reduction of work outside of Norway.

Charter hire, fuel and crew expenses ended at USD 10.3 million, a decrease of 43% from the USD 18.1 million reported in 2016. The main reasons for the decreased expenses are lower activity levels and the effect of the various cost savings measures as implemented in 2016 and 2017. The Group's capitalisation of multi-client and JIP test costs was USD 6.8 million in 2017, compared with USD 11.5 million in 2016.

Employee expenses amounted to USD 17.1 million in 2017, down from the USD 25.1 million as reported in 2016 (see more details in Note 8). The number of employees decreased from 143 at the beginning of 2017 to 123 at the end of 2017.

Other operating expenses amounted to USD 6.3 million in 2017, compared with USD 10.1 million in 2016. A more detailed overview of the Group's other operating expenses can be found in Note 9.

#### Depreciation and amortisation

Depreciation and ordinary amortisation totalled USD 6.8 million in 2017, down from USD 7.7 million in 2016. The decrease is due to various assets becoming fully depreciated.

Multi-client amortisation amounted to USD 8.6 million in 2017, which is lower than the USD 11.2 recorded in 2016. EMGS changed its principles for multi-client amortisation from 1 January 2016 and onwards. The Company now uses straight-line amortisation for its completed multi-client projects,

assigned over the useful life time of four years. The amortisation is then distributed evenly, independently of sales during the period.

In 2017, the Group recorded impairments of long-term assets of a total of USD 3.6 million, compared with a total of USD 17.3 million in 2016. In 2017, the impairment consisted of impairment of the multi-client library.

#### Financial items and result for the year before and after taxes

Interest expenses ended at USD 4.1 million in 2017, an increase from USD 3.3 million in 2016. EMGS recorded a loss on net foreign currency of USD 3.3 million in 2017 compared with a gain of USD 1.5 million in 2016. In 2017, net gain on financial liabilities consisted of the gain on a forward rate agreement of USD 2.1 million. The net loss on financial assets and liabilities of USD 6.3 million in 2016, consisted of the accumulated loss on the North Energy shares of USD 7.2 million that was reclassified from comprehensive income to net financial items when the Company sold its North Energy shares in January 2016 and a gain on the forward rate contract.

Net financial items ended at negative USD 5.0 million in 2017, compared to a negative USD 7.8 million in 2016.

For 2017, EMGS recorded a loss before income taxes of USD 21.9 million, compared with a loss before income taxes of USD 52.9 million in 2016.

Income tax expenses of USD 0.4 million were recorded in 2017, compared with a negative USD 0.1 million in 2016. These amounts relate to tax accruals in foreign jurisdictions.

EMGS reported a net loss of USD 22.3 million for 2017, up from a net loss of USD 52.8 million for 2016.

#### **Cash flow and balance sheet**

##### Cash flow from operating, investing and financing activities

For 2017, net cash flow from operating activities was negative USD 1.2 million, compared with negative USD 0.8 million in 2016.

EMGS applied USD 9.3 million in investing activities in 2017. The investments consist of USD 2.5 million in property, plant and equipment and USD 6.8 million in multi-client investments and JIP field test. In 2016, cash applied in investing activities amounted to USD 13.5 million. The investments consisted of USD 3.4 million in property, plant and equipment and USD 11.5 million in multi-client investments and JIP field test. In addition, the Company sold its shares in North Energy ASA with a price of USD 1.4 million.

Cash flow from financial activities ended at positive USD 13.1 million in 2017. The positive cash flow in 2017 includes proceeds from the rights issue of USD 17.4 million, USD 2.0 million in bond repayment and settlement of a part of the forward rate agreement, and USD 2.1 million in interest payments. In 2016, cash flow from financial activities ended at negative USD 3.3 million as a result of interest payments of USD 2.3 million and the payment/settlement of a loan and the forward rate agreement of USD 1.1 million.

In summary, cash increased by USD 2.5 million in 2017. At 31 December 2017, cash and cash equivalents totalled USD 23.1 million, including USD 6.5 million in restricted cash.

##### Financial position

EMGS total assets amounted to USD 104.5 million at 31 December 2017, down from USD 111.3 million at 31 December 2016, mainly explained by the reduction in the value of the multi-client library.

The carrying value of the Group's multi-client library was USD 16.3 million at the end of 2017, a decrease of USD 24.3 million since the end of 2016.

Total borrowings were USD 30.6 million at the end of 2017, down from 31.9 million at the end of 2016.

#### Liquidity requirements and financing facilities

EMGS' cash flow forecast including the Comprehensive Refinancing is considered sufficient for the Group to meet its liquidity requirements for 2018.

The Group's need for liquidity fluctuates from quarter to quarter depending on revenues, capital expenditures, vessels in operation and cash balance.

Cash and cash equivalents, excluding restricted cash, totalled USD 16.5 million at 31 December 2017, up from USD 14.0 million at 31 December 2016.

As per 31 December 2017, EMGS has one listed bond loan worth NOK 246 million (USD 29.8 million) and financial lease obligations of USD 0.8 million.

In addition, liabilities related to the forward rate agreement amounted to USD 3.0 million at the end of 2017.

The Group has total borrowings of USD 30.6 million and a cash position of USD 23.1 million.

See "Events after the balance sheet date" for actions taken in 2018 to improve the financial position.

#### **Research and development**

To maintain its leading market position within the EM market, EMGS has invested significant time and resources in research and development ("R&D"). The industry in which it operates is highly technical and the requirements for the acquisition and processing of EM data evolve continuously. EMGS has agreements with various universities, research institutions and oil and gas companies regarding various aspects of R&D for hardware, software applications used in the processing, inversion and modelling of EM data.

As of 31 December 2017, EMGS' R&D staff included 17 scientists, engineers and programmers. As a result of the lower activity in the oil and gas sector, EMGS has reduced its investments in R&D. The research, development and software groups were reduced in size and some on-going research/feasibility work has been re-prioritised. The reduced activity related to R&D is likely to have limited revenue impact in the short term, as the Company is in a strong technological position.

In 2017, EMGS incurred R&D related costs of USD 0.8 million, down from USD 0.9 million in 2016. Where possible, the Company seeks to offset internal R&D costs by industry funding and partnerships.

In addition, the Group capitalised certain R&D expenses in accordance with IFRS. In 2017, the Group capitalised USD 0.5 million of its employee costs as development same amount as in 2016.

#### **Allocation of Net Income**

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

Other equity	NOK (172.5 million)
Net income/(loss) allocated	NOK (172.5 million)

Distributable equity as of 31 December 2017 was NOK 0.

## Financial risk

The Group's principal financial liabilities are trade and other payables, loans and borrowings and forward rate agreement. The Group has various financial assets such as trade receivables, cash and short-term deposit which arise directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management and Board review and agree policies for managing each of these risks which are summarised below. For further details see Note 3 to the financial statements.

### 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 loans and borrowings and AFS investments. Please see sensitivity analysis in Note 3.

#### *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 has limited exposure to interest rate risk, as this is primarily only related to the Group's long-term loan of NOK 246 million with floating interest rate (3 month NIBOR + 6%).

#### *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 has USD as functional currency, so the foreign currency risk is primarily with respect to NOK in EMGS ASA.

For 2017, approximately 99% of the Group's sales revenues were denominated in USD, whilst approximately 56% of the costs were denominated in USD.

EMGS also has a NOK 246 million bond loan as of 31 December 2017. The Group manages the exposure level of foreign currency risk by hedging its exposure to exchange rate fluctuations related to the bond loan.

Foreign exchange risk arises from future commercial transactions, recognised as assets and liabilities. The Group's exposure to foreign currency changes on equity and for all other currencies is not material.

### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient liquidity to be able to meet its financial obligations. EMGS' 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 is the Company's objective to balance these sources of liquidity. As EMGS expects a slow market for its services also in 2018, the Company has reduced the costs significantly in order to strengthen the cash balance.

The current bond loan covenant implies a minimum free cash of USD 10 million. It is the aim of the Company is to be compliant with this covenant.

See "Events after the balance sheet date" for actions taken in 2018 to improve the financial position.

### 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 20 for the aging analysis of trade receivables.

EMGS considers that it has no significant concentration of credit risk. Its clients are major international, national and independent oil and gas companies, mostly with good credit standings and histories. Occasionally, a smaller oil and gas company may be on the client list and, in these cases, caution is conducted in the credit evaluation. In 2017, EMGS did not experience any significant defaults in payments from customers.

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. Two customers amounted to a significant part of the 2017 revenues. However, these customers were large national oil companies, and considered creditworthy.

### Corporate governance

EMGS is committed to healthy corporate governance practices. EMGS' corporate governance principles are based on equal treatment of all shareholders, maintaining open and reliable lines of communication with shareholders and other stakeholders, having a Board that is autonomous and independent of the executive management and ensuring a clear division of responsibility between the Board and the executive management.

The Company produces a comprehensive annual statement on corporate governance as part of its annual report. For further details, please see the section titled Corporate Governance in this annual report. The information is also available on the Company's homepage.

### CSR, working environment, discrimination and external environment

EMGS has adopted a policy and a standard for sustainability and corporate social responsibility ("CSR"). The principles in the policy cover the areas labour rights, anti-corruption, the environment and human rights.

All work in the Group related to sustainability and CSR (together "the CSR work") is based on the CSR policy and the standard.

As the Company is a Norwegian public limited company listed on the Oslo Stock exchange, it complies with Section 3-3c of the Norwegian Accounting Act in respect of corporate social responsibility.

The Company produces an annual statement on its CSR work, including information about the working environment in the Group, equal opportunities and discrimination statement, the external environment and human rights. For further details, please see the section entitled Sustainability and Corporate Social Responsibility in this annual report. The information is also available on the Company's homepage.

### Company outlook

The market outlook for oil services is challenging and characterised by high uncertainty. The Board is of the opinion that it must be assumed that this uncertainty will continue into 2018. However, EMGS has noted an increase in commercial activity, supported by a relatively stable oil price per barrel (USD 60 – 70) and with a reduced cost base, the Company is well positioned going forward.

The Company expects to continue its work with multi-client projects on the Norwegian continental shelf in 2018, subject to inter alia appropriate pre-funding levels and commercial interest from its customers. In addition, the Group is continuously pursuing marketing efforts to secure backlog in Africa, Asia and the Americas.

Based on the current operational forecast, EMGS expects to operate two vessels in 2018. 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.

Oslo, 9 March 2018

**Board of Directors and CEO of Electromagnetic Geoservices ASA**

**Sign.**

# 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 31 December 2017.

EMGS' consolidated financial statements have been prepared in accordance with IFRSs and IFRICs as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act. The separate financial statements for the Company have been prepared in accordance with Norwegian Accounting Act and Norwegian accounting standards. The Board of Directors' report is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no 16.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2017 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 2017 for the Group and the Company.
- The Board of Directors' report for the Group and the Company includes a fair review of
  - The development and performance of the business and the position of the Group and the Company.
  - The principal risks and uncertainties the Group and the Company face.

Oslo, 9 March 2018

**Board of Directors and CEO of Electromagnetic Geoservices ASA**

**Sign.**

# Report on Corporate Governance.

EMGS is committed to healthy corporate governance practices which strengthens and maintains confidence in the Company, thereby contributing to optimal long-term value creation for shareholders and other stakeholders. The objective of corporate governance is to regulate the division of roles between shareholders, the Board and executive management more comprehensively than is required by legislation.

EMGS' principles for corporate governance are based on the following elements:

- All shareholders are treated equally
- EMGS will provide open, reliable and relevant communication to shareholders, governmental bodies and the public about the Company's activities and its corporate governance commitment
- EMGS' Board is fully independent from the Company's executive management
- The EMGS's Board has a majority of members who are independent of shareholders
- EMGS pays particular attention to ensuring that there are no conflicts of interest between the interests of its shareholders, the members of its Board and its executive management
- EMGS will ensure a clear division of responsibility between the Board and the executive management

## 1 Implementation and reporting on corporate governance

### Implementation and reporting

The board of directors (the "Board") of Electromagnetic Geoservices ASA (the "Company" or "EMGS") is committed to maintaining a high standard of corporate governance, in line with both Norwegian and international best practice standards. In addition to having a continuous focus on corporate governance, the Board and the executive management of the Company carries out, on an annual basis, a comprehensive review and evaluation of its principles for corporate governance and the implementation of these. This report (the "Report") summarises the Company's corporate governance work and compliance with applicable requirements and fulfils the Company's reporting obligations under applicable law and other legal frameworks.

EMGS is a Norwegian-registered public limited liability company, with its shares listed on the Oslo Stock Exchange (*Oslo Børs*).

The Norwegian Accounting Act Section 3-3b, which the Company is subject to, sets out certain corporate governance related information which is to be disclosed and reported on through the issuance of an annual reporting document. This Report meets the requirements provided by the Accounting Act. The Accounting Act is available on [www.lovdata.no](http://www.lovdata.no).

Furthermore, the Continuing Obligations of Stock Exchange Listed Companies (the "OSE Continuing Obligations") issued by the Oslo Stock Exchange requires listed companies to publish an annual statement of their practice related to their policy on corporate governance. In addition to setting out certain minimum requirements for such reporting

(equivalent to those under the Accounting Act), the OSE Continuing Obligations requires that the Company reports on its compliance with the recommendations of the Norwegian Code of Practice for Corporate Governance (the "Code") published by the Norwegian Corporate Governance Board. Both the OSE Continuing Obligations and the Code requires that an explanation is provided where a company has chosen an alternative approach to specific recommendations in the Code (i.e. a "comply or explain" basis).

EMGS complies with the current Code, issued on 30 October 2014. The Company provides a report on its principles for corporate governance in its annual report and on its website, [www.emgs.com](http://www.emgs.com). EMGS' objective is to comply with all sections of the Code, but the Company may deviate from principles in the Code if required for special purposes.

The OSE continuing Obligations are available on [www.oslobors.no](http://www.oslobors.no), and the Code is available on [www.nues.no](http://www.nues.no).

This Report sets out how the Code is accommodated through the financial year 2017.

### **Values and guidelines for business ethics and corporate social responsibility**

EMGS has a set of clearly defined core values: Integrity, Commitment, Innovation and Quality. The values are operationalised in EMGS' daily operations and management, including in our approach to corporate governance.

The Board recognises that confidence in EMGS as a company and in its business, activities is essential for the Company's continuing competitiveness. Therefore, EMGS is committed to transparency and openness about its management systems and procedures. This strengthens value creation, builds internal and external confidence and promotes an ethical and sustainable approach to business.

The Board has, in close cooperation with the Company's executive management, established a comprehensive framework of guidance documents. The core element and top-tier in this framework is the Company's policy document, which includes amongst other the Company's ethics policy, the corporate social responsibility policy (see also separate report in the annual report) and the health, safety and environment policy. Other core guidance documents include the Company's Code of Conduct Standard and the EMGS Sustainability and Corporate Social Responsibility Standard. These policies and standards are evaluated and updated on a regular basis. The Company has adopted a program for corporate social responsibility, including an anti-corruption compliance programme incorporating mandatory training of all employees.

EMGS' website provides more information about the Company's business activities, policies and standards.

## **2 Business**

EMGS is the market leader in controlled source electromagnetic (CSEM) imaging. Pursuant to Section 3 of the Company's Articles of Association, the Company's purpose is as follows:

*"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 Company has clear objectives and strategies for its business within the scope of the definition of the business purpose in its Articles of Association.

The Board of Directors' report in the Company's annual report includes a description of the Company's objectives and principal strategies according to the business activities clause from the Articles of Association. The Articles are available at the Company's homepage, [www.emgs.com](http://www.emgs.com).

### 3 Equity and dividends

#### Equity

As of 31 December 2017, the EMGS Group had a combined equity of USD 27.9 million, representing an equity ratio of 27%.

The Board's assessment of the Company's equity position and a description of certain initiatives by the Board in this connection is set out in the Board of Director's Report.

#### Dividends

The Company has at present no intention to pay dividends. The Board will establish a dividend policy when relevant.

The Company's objective is to generate a long-term return for its shareholders through dividends and increases in the share price that is, at least, in line with the return available on similar investment opportunities of comparable risk.

#### Authorisations to increase share capital and to acquire own shares

At the Annual General Meeting (AGM) held in 2017, the Board was authorised to increase the share capital of the Company by up to NOK 7,000,000 (but not more than 10% of the registered share capital of the Company) through one or more share issues. Further details are set out in the resolution by the AGM that states, among others, that the authorisation may be utilised in connection with potential transaction / M&A activity, and/or to finance general corporate purposes.

The Board was also given authorisation to increase the share capital by up to NOK 402,599 to be utilised for fulfilling the Company's obligations towards holders of options, should such options be exercised. All options are based on the Employee Option Programme.

The two authorisations are valid until the next AGM of the Company, but in no event beyond 30 June 2018. As of 31 December 2017, the Board had not used these authorisations.

#### Reduction of registered share capital and adjustment of par value of shares

At the 2017 AGM of the Company, it was resolved to reduce the registered share capital of the Company by NOK 295,147,251 to NOK 32,794,139 (a reduction of 90%) by reducing the par value of each share from NOK 10 to NOK 1. The reduction was implemented to facilitate the share capital increase resolved at the AGM.

The shares were recorded with the new par value on 16 June 2017 and traded with this new par for the rest of 2017.

The registered share capital of the Company was subsequently increased through the rights issue resolved at the AGM, to NOK 91,428,874 divided on an equal number of shares each with a par value of NOK 1.

### 4 Equal treatment of shareholders and transactions with close associates

#### Equal treatment

Equal treatment of shareholders is an important principle for corporate governance in EMGS. The Company has one class of shares, and any purchases or sales of own shares are carried out over the stock exchange.

The Articles of Association do not impose any restrictions on voting rights. All shares have equal rights.

Pursuant to the Norwegian Public Limited Liability Companies Act, existing shareholders have pre-emption rights in connection with share capital increases and issuance of financial instruments which grants the holder a right to have

new shares issued. However, this right can be waived from time-to-time by a qualified majority of the shareholders. When proposing to the shareholders to resolve such a waiver, the Board shall explain the rationale for such a waiver.

Where a share capital increase is resolved by the Board in accordance with an authorisation by the general meeting of the Company, the pre-emption right may only be set aside where this has been pre-approved by the shareholders as part of the issuance of the authorisation. Where the Board resolves to carry out an increase in the share capital and waive the pre-emption rights of the existing shareholders on the basis of such an authorisation granted to the Board, an explanation will normally be publicly disclosed in a stock exchange announcement issued in connection with the increase of the capital.

The Board of EMGS will waive the pre-emption of existing shareholders in connection with share capital increases following the Company's obligations towards holders of options if and when such options are exercised.

#### **Transactions with close associates**

In the event of any material transaction between the Company and its shareholders, a shareholder's parent Company, members of the Board, members of the executive personnel or close associates of any such parties, the Board will, as a general rule, arrange for a valuation by an independent third party.

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

## **5 Freely negotiable shares**

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

EMGS is listed on the Oslo Stock Exchange, and the Company works actively to attract the interest of new shareholders.

## **6 General meetings**

#### **General Meetings**

General Meetings are the Company's ultimate corporate body. EMGS encourages all shareholders to participate in general meetings. The Board endeavours to organise the general meetings to ensure that as many shareholders as possible may exercise their rights by participating, and that such meetings are an effective forum for the views of shareholders and the Board.

#### **Preparation for the Annual General Meeting (AGM)**

The AGM is normally held in June each year, and in any case no later than 30 June, which is the latest date permitted under applicable law. The 2017 AGM was held on 25 April 2017. The 2018 AGM is scheduled to be held on 8 June 2018.

The notices calling the general meetings are made available on the Company's website and sent to shareholders in the form requested in their VPS account, in each event no later than three weeks prior to the meeting.

According to article 8 of the Company's registered Articles of Association and provided that the shareholders may participate in general meetings electronically, ref. article 9 in the articles, the AGM may, with the majority required to amend the Articles of Association and with effect until the next AGM, decide that the notices calling Extraordinary General Meetings shall be sent no later than two weeks before the date of the meeting. This alternative was not used in 2017.

Shareholders who wish to take part in a general meeting must give notice to the Company by the date stated in the notice of meeting, which date must be at least two business days before the general meeting.

Each share carries one vote in the Company's general meetings.

Article 10 of the Articles of Association stipulates that the supporting documents dealing with matters to be considered by the AGM can be made available on the Company's website rather than being sent to shareholders directly. However, shareholders are still entitled to receive the documents by post upon request.

The calling notice to the general meeting along with a form for appointing a proxy and sufficiently detailed supporting information, including proposals for resolutions and comments on matters where no resolution is proposed, are disclosed on the Company's website. Resolutions and supporting information are sufficiently detailed and comprehensive to enable shareholders to form a view on matters on the agenda 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.

As a routine, the financial calendar for the coming year is published no later than 31 December as a stock exchange announcement, and it is also made available on the Company's website.

### **Participation in general meetings**

Shareholders who do not attend the general meeting may be represented and exercise their voting rights by way of a proxy. A person will be nominated to be available to vote as a proxy on behalf of shareholders. Proxy forms will enable the proxy holder to cast votes for each item on the agenda separately. The final deadline for shareholders to give notice of their intention to attend the meeting or to vote by proxy will be set in the notice for the meeting. According to article 9 of the Articles of Association, the Board may decide that the shareholders can participate in the general meeting by mean of an electronic aid, including that they may exercise their rights as shareholders electronically.

The Chairman of the Board, the CEO, the CFO and the auditor will be present at the AGM. Other board members will, if possible, attend the general meetings.

### **Agenda and conduct of the AGM**

The Board decides the agenda for the AGM. The main agenda items are determined by the requirements of the Public Limited Liability Companies Act.

The Code stipulates that the Board should have arrangements to ensure an independent Chairman for the general meetings. The Company has evaluated the recommendation but decided that it was in the interest of the Company and the shareholders that the general meeting held in 2017 was chaired by the Chairman of the Board.

The AGM minutes are published by the issuance of a stock exchange announcement and are also made available on the Company's homepage.

## **7 Nomination committee**

EMGS has a nomination committee elected by the AGM. According to article 11 in the Company's Articles of Association, the committee shall consist of 2 to 3 members who shall be elected by the AGM for a period of 2 years, unless the AGM decides a shorter period.

As per 31 December 2017, the nomination committee consists of 2 members;

- Kristian Siem (Chairperson)
- Frederik W. Mohn

The Nomination Committee has refrained from accepting a fee for their work on the Nomination committee. The nomination committee proposes candidates for election to the Board and for the remuneration of the members of the Board. Also, the committee proposes candidates for election to the nomination committee and suggest changes to the mandate or guidelines for the nomination committee.

EMGS' nomination committee is in contact with shareholders, the Board and the Company's executive management when searching for candidates for election to the Board.

The recommendation to the AGM relating to the election should be available in time to be sent with the notice calling the meeting, so that the shareholders have the opportunity to submit their views on the recommendation to the nomination committee ahead of the meeting. Further details are set out in article 11 of the Articles of Association and in the guidelines for the nomination committee, which were approved by the AGM in 2012.

## 8 Board: composition and independence

### The composition of the Board

EMGS does not have a corporate assembly.

According to article 5 in the Company's Articles of Association, the Board shall consist of 5–11 board members. At the end of 2017, EMGS' Board consisted of seven directors, including two directors elected by and among the employees of the Company. Three of the directors are female and four are male.

The shareholder-elected members represent varied and broad experience from relevant industries and areas of speciality, and the members bring experiences from both Norwegian and international companies. Any proposal for the election of shareholder-elected board members are made with a view to ensure that the Board can attend to the shareholders' common interest and the Company's need for competence, capacity and diversity. Also, the Board should function well as a collegial body. The Chairman of the Board is elected by the general meeting.

As of 31 December 2017, the Board consisted of the following directors:

- Eystein Eriksrud, Chairman
- Petteri Soininen
- Johan Kr. Mikkelsen
- Mimi Berdal (independent)
- Anne Øian (independent)
- Adam Robinson, employee representative
- Marthe Karlsen, employee representative
- Ragnhild Gaupen Gåsø, alternate employee representative
- Ellen Trolid, alternate employee representative
- Magne Andersen Drage, alternate employee representative
- Joseph Fletcher, alternate employee representative

Board members are elected for a period of two years.

### Independence of the Board

The Board does not include any members from the Company's executive management.

Two of the five shareholder-elected board members are independent of the Company's substantial business associations and major shareholders. The three members that are not considered independent are related to the Company's largest shareholders.

## 9 The work of the Board

### The Board's duties and responsibilities

The Board has the ultimate responsibility for the management of the Company and for supervising its day-to-day management and activities in general. This includes developing the Company's strategy and monitoring its implementation. In addition, the Board exercises supervision responsibilities to ensure that the Company manages its business and assets and carries out risk management in a prudent and satisfactory manner. The Board is responsible for the appointment of the CEO. The Board has an annual plan for its work.

### Mandate for the Board

In accordance with the provisions of Norwegian company law, the terms of reference for the Board are set out in a formal mandate that includes specific rules and guidelines on the work of the Board and decision making. The Chairman of the Board is responsible for ensuring that the work of the Board is carried out in an effective and proper manner in accordance with legislation.

### Mandate for the CEO

The Board issues a mandate for the work of the CEO. There is a clear division of responsibilities between the Board and the CEO. The CEO is responsible for the operational management of the Company.

### Financial reporting

The Board receives periodic reports on the Company's commercial and financial status. The Company follows the timetable laid down by the Oslo Stock Exchange for the publication of interim and annual reports.

### Board meetings

The Board holds regular meetings and a strategy meeting each year. Extraordinary Board meetings are held as and when required, to consider matters that cannot wait until the next regular meeting. In addition, the Board has appointed three sub-committees composed of board members to work on matters in these areas. The Board has established and stipulated instructions for these committees.

### Audit committee

The audit committee is appointed by the Board. Its main responsibilities are to supervise the Company's systems for internal control, to ensure that the auditor is independent and that the interim and annual accounts give a fair and true representation of the Company's financial results and financial condition in accordance with generally accepted accounting principles. The audit committee has reviewed the procedures for risk management and financial controls for the major areas of the Company's business activities.

The audit committee receives reports on the work of the external auditor and the results of the audit. Also, the audit committee meets regularly with the auditor where no member of the executive management is present.

As per 31 December 2017, the audit committee consisted of the following:

- Anne Øian, Chairman
- Eystein Eriksrud

### Compensation committee

The compensation committee makes proposals to the Board on the employment terms, as well as conditions and total remuneration of the CEO and other executive personnel.

As per 31 December 2017, the compensation committee consisted of the following:

- Eystein Eriksrud, Chairman
- Petteri Soininen
- Johan Kr. Mikkelsen
- Mimi Berdal

### Strategy Committee

A strategy committee was established by the Board on 11 February 2015. The committee shall contribute to the Company's strategy development.

The committee consists of the following:

- Petteri Soininen, Chairman
- Eystein Eriksrud
- Johan Kr. Mikkelsen

### Annual evaluation

The Board's working methods and interactions are subject to annual revision.

## 10 Risk management and internal control

The Board ensures that the Company has sound risk management and an internal control system that is appropriate to its activities. The risk management and internal control systems in EMGS are based on its corporate values, ethics guidelines and principles for sustainability and corporate social responsibility ("CSR"). The Board reviews the Company's internal control system and the main areas of risk annually.

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

A description of the Company's financial risk management objectives and policies are included in Note 3 to the financial accounts.

## 11 Remuneration for the Board

The AGM decides the remuneration paid to members of the Board annually. The nomination committee prepare proposals for the AGM regarding remuneration for Board members. The remuneration of the Board reflects the Board's responsibility, expertise and time commitment, and the complexity of the Company's activities.

The Code recommends that remuneration of the Board should not be linked to the Company's performance and, further, that the Company should not grant options to members of its Board. The employee representatives on the Board hold options, but these have been granted to them as employees of the Company, not as board members.

None of the shareholder-elected board members are engaged by the Company as other than board members.

Details on the remuneration to the Board can be found in notes to the financial statements of the Company. The employee representatives do not receive any compensation for their services as board members.

## 12 Remuneration of the executive personnel

The Board determines salary and other remuneration systems for key management personnel pursuant to the provisions of the Norwegian Public Limited Liability Companies Act. The CEO's employment conditions and remuneration are determined by the Board and are presented to the AGM. The Board annually evaluates salary and other remuneration for the CEO. Details on the remuneration to the Company's executive personnel are included in notes to the financial statements of the Company.

The guidelines of the remuneration system for the executive personnel is determined by the Board and is presented to the general meeting through a declaration on principles for management remuneration, which is required by law. This declaration is also included in the Company's annual report.

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 believes that the salary levels of executive personnel should be competitive.

## 13 Information and communications

EMGS maintains regular dialogue with analysts and investors. The Company considers it very important to inform shareholders and investors about the Company's commercial and financial performance.

The Company strives to continuously publish all relevant information to the market in a timely, effective and non-discriminatory manner. All stock exchange announcements are made available both on the Company's website and on the Oslo Stock Exchange news website at [www.newsweb.no](http://www.newsweb.no), and are also distributed to news agencies (via Hugin).

### Financial reports

EMGS normally publishes its provisional annual accounts early February. The complete annual report and accounts are made available to shareholders no later than three weeks prior to the AGM and no later than by the end of April, as required by the Securities Trading Act (section 5-5 (1)).

Quarterly reports are normally published within six weeks following the end of the quarter, except for the report for the second quarter which is normally published around seven weeks following the end of the quarter.

The Company's financial calendar for the coming year is published no later than 31 December in accordance with the rules of the Oslo Stock Exchange. The financial calendar is available on the Company's website and on the Oslo Stock Exchange website.

EMGS holds open web-based presentations in connection with the publication of its interim results. These presentations review the published results, market conditions and the Company's future prospects. The presentations are given by the CEO and/or the CFO and are distributed by webcast so that anyone can follow the presentation on the internet in real time or view it later. Quarterly reports, presentation material and webcasts are all available on the Company's website.

Following the publication of the interim results, the CEO or the CFO meet with shareholders and potential investors.

### Other market information

In addition to the dialogue between the shareholders in the general meeting, the Board aspires to maintain contact with shareholders throughout the year. If possibly in relation to the quarterly presentations and the participation in seminars mainly aimed at investors. This contact is coordinated between the Chairman of the Board, the CEO and/or the CFO.

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

## 14 Takeovers

The Board endorses the recommendation of the Code for corporate governance on takeover bids. EMGS' Articles of Association 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, the Board has adopted guidelines for possible takeovers.

In the event of a takeover bid, the Board will, in accordance with its overall responsibility for corporate governance, act for the benefit of all Company shareholders. The Board will not seek to hinder or obstruct takeover bids for EMGS' activities or shares, unless the interests of the Company's shareholders warrants so.

If an offer is made for EMGS' shares, the Board will normally both make a recommendation on whether the shareholders should accept the offer and arrange a valuation from an independent expert.

## 15 Auditor

The external auditor presents an annual 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 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 in the meeting dealing with the annual financial statements, including presenting any material changes in the Company's accounting principles and significant accounting estimates, and reporting any material matters on which there has been disagreement between the external auditor and EMGS' executive management.

The external auditor annually presents internal control weaknesses and improvement opportunities to the audit committee and, when appropriate, to the Board. The Board holds a meeting with the auditor at least once a year where no member of the executive management is present.

The Board 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 are presented at the annual general meeting. This is also included in the annual report.

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

Oslo, 9 March 2018

**Board of Directors and CEO of Electromagnetic Geoservices ASA**

**Sign.**

# Report on Sustainability and Corporate Social Responsibility.

## Introduction

This report from the Board of Directors (the “Board”) of Electromagnetic Geoservices ASA (“EMGS” or “the Company”) describes EMGS’ principles, efforts, measures and results related to sustainability and corporate social responsibility (“CSR”) in the year of 2017.

The report is based on the principles in EMGS’ policy for sustainability and corporate social responsibility and the EMGS sustainability and corporate social responsibility standard (together, the “CSR Policy Documents”). These principles cover the areas labour rights, anti-corruption, the environment and human rights. The CSR Policy Documents applies to both national and international operations.

It is the intention of EMGS that the Company’s efforts within (i) working environment issues, including safety measures, (ii) anti-corruption procedures and training, and (iii) the culture encouraged from our employees through the CSR Policy Documents shall contribute to improved understanding for human rights, working ethics, work environment, health, safety and environmental impact.

The work related to sustainability and CSR (together “the CSR work”) in EMGS is based on the core values of the Company:

- **Integrity** in all our relationships  
We earn trust through demonstrating integrity. We dare to challenge, and we are honest. Our honesty benefits all our relationships.
- **Commitment** to value creation  
We are strong believers in the value our technology creates for both customers and shareholders. We go the extra mile.
- **Innovation** in products and services  
We set the stage for the future of the industry. We are passionate about developing what our customers need.
- **Quality** in every step  
We care about our people, our customers and our deliveries. We don’t compromise on safety or on quality.

This report covers CSR work related to EMGS with its subsidiaries (together, the “Group”) in 2017.

The report is primarily based on feedback from management in the Group, the EMGS Ethics Committee, and various other internal committees, reporting systems and reports. During 2017, CSR issues were discussed in management meetings and by the Board.

This report includes an introduction to the abovementioned principles, the EMGS commitment, implementation and actions as well as the measures and outcome specific for 2017.

The CSR policy is available on the Company's homepage [www.emgs.com](http://www.emgs.com).

## Statement on CSR work 2017

All work in the Group related to CSR is based on the CSR Policy Documents. Below is an overview of the principles, as well as a description of how the Company reports issues relates to CSR, and measures taken under each of the main CSR principles.

### Quality, Health, Security, Safety and Environment

In 2017, the general objectives for Quality, Health, Security, Safety and Environment (QHSSE) were met, but some areas of improvement were identified. The Company is continuing a positive QHSSE trend from previous years, and the five-year trailing statistics are in line with its peers.

EMGS complies with the highest standards from IOGP, the International Association of Oil and Gas Producers, as well as with specific QHSSE requirements from customers and authorities.

QHSSE performances are reviewed on a regular basis with the Board and management team.

### Labour rights

EMGS adheres to the following principles for labour rights:

- Freedom of association and right to collective bargaining;
- No forced and compulsory labour;
- No child labour; and
- No discrimination

### ***The working environment and the employees***

As of 31 December 2017, the EMGS Group had 123 employees, of which 49 work in Trondheim, Norway, 6 at its regional office in Houston, USA, 8 at the regional office in Kuala Lumpur, Malaysia, 17 at the regional office in Oslo, Norway. In addition, 36 employees work offshore and the remaining 7 work in other locations.

The Company has initiated a number of activities to measure and track employee satisfaction and the work environment throughout the Group. As part of such activities, the Company conducted a Group wide employee satisfaction survey in 2017.

As many employees are involved in offshore operations, a dedicated HSE training program has been implemented to ensure the safest possible working environment.

The percentage of absences due to illness in 2017 was 3.7%, an increase from the 1.9% reported in 2016. This increase is due to a few cases of long term sick leave that are not work related. The Company experienced one lost time injury event in 2017.

### ***Equal opportunities and discrimination statement***

EMGS' 123 employees represent more than 24 different nationalities with different cultures.

EMGS has defined and implemented guidelines to protect against gender discrimination. At the end of 2017, 20% of the Group's 123 employees were female, which is the same male/female ratio as that of 31 December 2016. 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 a high degree of representation of males at management level and among the technical professionals. As per 31 December 2017, EMGS management team consisted of eight members, whereof one female. The executive management team consist of two people, whereof one male and one female.

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 and systematically working to encourage the Act's purpose within its business. The activities include recruiting, remuneration, working conditions, promotion, development opportunities and protection against harassment. These are issues of importance for EMGS' working environment, as the Group has employees from more than 24 nations with a multitude of languages, cultures, ethnicities, religions and faiths.

The Group's aim is to have a workplace with no discrimination due to reduced functional ability. Therefore, EMGS is actively working to design and implement the physical conditions of its workplaces so that as many people as possible can utilize the various functions. For employees or new applicants with reduced functional ability, individual arrangements are made concerning workplace and responsibilities. For offshore work, the Group has limited possibilities for offering work to employees with reduced functional ability.

### ***Committees work***

The Working Environment Committee shall participate in planning safety and environmental work and follow up developments on issues relating to the safety, health and welfare of the employees. The Working Environment Committee has quarterly meetings, in addition topic-based meetings and reports to the VP HR.

The Forum for Employee Representatives meets with the CEO, the VP HR and the Chief Legal Counsel. The forum is regulated by the Norwegian Working Environment Act. The goal for this forum is to facilitate cooperation between the employee representatives and management related to the working environment and the general terms and conditions of all employees and conflicts. The forum for Employee Representatives including representative of management met six times in 2017, in addition to several informal meetings.

### ***Working environment measures***

EMGS management encourages and facilitates close dialogue between management and employees, and between the different departments within the Group. Some of the actions to facilitate dialogue are through management visits to vessels and office meetings. The regular offshore seminars have in part been replaced by management visit to the vessels, in an effort to contribute to the cost reduction efforts and focus.

In 2017, management conducted a number of visits to the vessels in the Company's fleet. The CEO and other members of the management team have visited all business units within the Group.

Office inspections are carried out on a regular basis to capture potential working environment hazards.

The Maritime Labour Convention, MLC 2006 was implemented in August 2013 and the Norwegian law implementing this convention, the Shipworker Act, was implemented on the same day. As of February 2018, the MLC 2006 had been ratified by 84 countries. EMGS' working environment and terms were already in line with the MLC 2006 and the Shipworker Act requirements before its implementation.

## Anti-Corruption

Principle for anti-corruption:

- Businesses should work against corruption in all its forms, including extortion and bribery

Corruption undermines all sound business activities and free competition.

EMGS has a zero-tolerance policy with respect to corruption in all its forms, including bribery in all of its forms. Adherence to this principle is a basic and fundamental requirement for all contractors and suppliers.

The Group and all of its employees shall at all times adhere to all applicable legislation related to bribery and anti-corruption, and as a minimum always to the provisions of the FCPA, the UK Bribery Act and the Norwegian penal code.

The Company has over the years given significant attention to the Company's active pursuit to prevent corruption and bribery.

EMGS has several policies and standards related to its anti-corruption compliance program, including but not limited to the Ethics Policy and Code of Conduct as well as an anti-corruption compliance training program. The training is a combination of web based and more in depth training in meetings. The 2017 training was conducted by approximately 99% of the employees of the Group.

The Group has established a whistle-blower procedure in line with best practice industry standards and all applicable regulations. EMGS encourages and supports employees who report dilemmas and incidents in relation to attempted and/or actual corruption, bribery and/or fraud to management ("whistle blowers"). The Company has not received any reports from employees related to anti-corruption during 2017.

EMGS continues to have a high priority on the Company's compliance work.

## External environment

EMGS is of the opinion that a more systematic use of its EM data in offshore oil exploration will reduce the environmental footprint of oil exploration activities by among other things reducing the number of dry or non-commercial wells being drilled before finding and appraising hydrocarbon reservoirs.

EMGS is committed to act responsibly and in full transparency to monitor and reduce its environmental impact and continually improve the overall environmental performance of its services. This is an integral and fundamental part of EMGS business strategy, operating methods and technology development implemented through EMGS' QHSSE Policy, Environmental Standard and Environmental Management Plan.

EMGS is tracking its environmental footprint on each survey and identifying and monitoring the main waste streams including hazardous waste.

The technology EMGS uses supports the Company's environmental ambitions. The anchors used to keep receivers in place are made from an eco-friendly compound which dissolves in the months after the receivers are released, thus the anchors do not harm the environment. This means that the anchors are reduced to disaggregated sand after a survey, leaving no discernible survey footprint and no hazard to subsea operations or fishing.

## Human Rights

Principles related to Human Rights:

- Support and respect the protection of human rights; and
- Make sure not to be complicit in human rights abuses.

Human rights abuses shall not occur at EMGS. It is the intention of EMGS that the working environment effort, including safety measures, the anti-corruption procedures and training as well as the attitude encouraged from the Company's employees shall contribute to improved understanding for human rights, working ethics and a cleaner environment in the areas of the world where the Group operates.

The reputation of the Company is created by the collective conduct of each individual employee. The employees are obligated to study the EMGS policies, including but not limited to Ethics Policy and Code of Conduct and perform their duties accordingly.

On an operating level, EMGS seeks to ensure that there is a good working environment without discrimination of any kind in the Group. The managers handle all minor issues related to human rights. If/when there are issues of broader magnitude, HR, legal and the Ethics Committee are involved.

No claim regarding Human Rights has been reported to the HR, QHSE or legal or in 2017.

Oslo, 9 March 2018

**Board of Directors and CEO of Electromagnetic Geoservices ASA**

**Sign.**

# Determination of Salary Statement.

This declaration has been prepared by the Board of Directors of Electromagnetic Geoservices ASA (“EMGS” or the “Company”) in accordance with the Norwegian Public Limited Liability Companies Act section 6-16a. The declaration applies to the financial year 2017 and will be presented at the Annual General Meeting in EMGS in accordance with the Norwegian Public Limited Liability Companies Act section 5-6, subsection 3.

## 1. Main principles for determination of management remuneration

The objective of the Company’s compensation policy applied to executive management (“Management”), is to attract and retain the best leadership capabilities to lead and develop the Company. The compensation is based both on a non-variable element (“Base Salary”) and variable elements such as bonus, stock options and variable special payments (“Variable Compensation”).

The Base Salary shall be competitive to local market levels and is determined by the manager’s skills and level of responsibility in the organisation. The Base Salary is determined by using industry benchmarks with local relevance for similar roles. The Variable Compensation, such as bonuses, is applied using Company performance and individual performance. Long term incentives, such as stock option plan, is applied by assessing the criticality of the role to the Company, as an instrument to retain critical skills in the Company.

## 2. Salaries and remuneration

### 2.1 Base Salary

The Management’s fixed annual salary is defined as the Base salary and is subject to an annual consideration.

### 2.2 Performance Bonus

The Company has a performance bonus program linked to annual performance. The objective of the program is to compensate individuals based on the achievement of Company objectives as well as personal performance. The objectives of the Company are established by the Board of Directors.

Management has a bonus potential up to 50% of Base Salary, and the rates are specified in the individual employment agreements.

A Bonus program is established as a general program for all employees with a bonus potential of 10 – 50% of Annual Base Salary.

### 2.3 Share Option Program

Management participates in the Company's Stock Option Plan which is used to attract and retain key employees. The programme was established with the aim to provide a long-term incentive.

For new grants, the minimum exercise price is set at fair market value at the date of grant. The vesting period is from 4 to 5 years.

Grants to Management will be at the discretion of the Board.

In the Annual General Meeting held in April 2017, it was resolved to authorise the Board to issue a maximum of 402,599 options over 2 years under the option programme (not only Management), and that the maximum outstanding options shall not, at any time, exceed 7.5% of the registered number of shares in the Company.

The total number of outstanding options as of 31 December 2017 is 350,799.

### 2.4 Pension plan

Management participates in the Company's collective pension plan. The Company has defined contribution pension plans, and the plan applicable in Norway involves a contribution level of 5% of Base Salary from 0 G up to 7.1 G and 15% of Base Salary from 7.1 G up 12 G, where G is the base amount (Folketrygdens grunnbeløp) that equals NOK 93 634 as of 31 December 2017. The Company does not offer any top-up pension plan for Management.

### 2.5 Benefits in kind

Management may be given the benefits in kind that are common practice i.e. telephone expenses, laptop and free broadband connection and use.

### 2.6 Severance plan

In 2017, members of Management have agreements to receive Base salary and benefits beyond the statutory notice period and up to 12 months after the end of his/hers notice period.

The severance plan includes an anti-compete clause and is structured to ensure that members of the Management do not start working for a competitor shortly after leaving the Company.

Agreements may be signed regarding severance pay for other members of general 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 general management other than the CEO.

As of 31 December 2017, the CEO has a severance corresponding to 12 months Base salary after end of notice period included in the agreement.

## 3. Management salaries and remuneration in subsidiaries of EMGS

Companies within the EMGS group are to follow the main principles of the Company's managerial salary policy as described in section 1. It is an ambition of the Company to globally coordinate the wage policy and the plans used for variable compensation throughout the EMGS Group.

4. Review of the executive management remuneration policy that has been carried out in the financial year 2017

The remuneration policies set out in the declaration on determination of salary and other compensation to the Management for 2017 were followed in all respects. No members of Management received a performance bonus, with the exception of a discretionary performance bonus paid out in 2017 to the previous COO at NOK 3,000,000.

Oslo, 9 March 2018

**Eystein Eriksrud**  
**for and on behalf of the Board of Directors of Electromagnetic Geoservices ASA**

**Sign.**

# Financial statements.

EMGS Group

# Consolidated Income Statement.

1 January - 31 December

Amounts in USD 1 000	Note	2017	2016
<b>Operating revenues</b>			
Contract sales	6	2 583	21 797
Multi-client pre-funding	6, 16	13 256	579
Multi-client late sales	6, 16	19 132	22 151
Other revenue	6	886	0
<b>Total revenues</b>		<b>35 858</b>	<b>44 527</b>
<b>Operating expenses</b>			
Charter hire, fuel and crew expenses	7	10 331	18 176
Employee expenses	8	17 057	25 097
Depreciation and ordinary amortisation	16, 17	6 779	7 677
Multi-client amortisation	16	8 613	11 244
Impairment of long-term assets	16, 17	3 626	17 286
Other operating expenses	9, 10	6 334	10 137
<b>Total operating expenses</b>		<b>52 740</b>	<b>89 617</b>
<b>Operating profit/(loss)</b>		<b>-16 882</b>	<b>-45 090</b>
<b>Financial income and expenses</b>			
Interest income	11	193	217
Interest expense	11	-4 088	-3 273
Net gains/(losses) of financial assets and liabilities		2 143	-6 297
Net foreign currency income/(loss)	11	-3 292	1 512
<b>Net financial items</b>		<b>-5 043</b>	<b>-7 841</b>
<b>Income/(loss) before income taxes</b>		<b>-21 926</b>	<b>-52 931</b>
Income tax expense	12	356	-100
<b>Income/(loss) for the year</b>		<b>-22 282</b>	<b>-52 831</b>
<b>Basic income/(loss) per share in USD</b>		<b>-0.37</b>	<b>-0.08</b>
<b>Diluted income/(loss) per share (ESP) in USD</b>		<b>-0.37</b>	<b>-0.08</b>

# Consolidated Statement of Other Comprehensive Income.

1 January - 31 December

Amounts in USD 1 000	Note	2017	2016
<b>Income/(loss) for the year</b>		<b>-22 282</b>	<b>-52 831</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Exchange differences on translation of foreign operations		-8	115
Net (loss)/gain on available-for-sale (AFS) financial assets, reversal of prior year losses – recognised in Income Statement upon realisation	18	0	7 202
<b>Other comprehensive income/(loss)</b>		<b>-8</b>	<b>7 317</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>-22 290</b>	<b>-45 514</b>

The items recorded in Other comprehensive income/(loss) do not have any tax effect in 2017 or 2016.

# Consolidated Statement of Financial Position.

As of 31 December

Amounts in USD 1 000	Note	2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Multi-client library	16	16 280	24 332
Other intangible assets	16	1 559	2 457
Property, plant and equipment	17	36 281	13 901
Assets under construction	17	3 112	28 255
Restricted cash	21	3 524	3 586
<b>Total non-current assets</b>		<b>60 756</b>	<b>72 531</b>
<b>Current assets</b>			
Spare parts, fuel, anchors and batteries	19	7 200	7 854
Trade receivables	20	11 075	8 534
Other receivables	18	5 957	7 080
Cash and cash equivalents	21	16 548	14 038
Restricted cash	21	2 997	1 255
<b>Total current assets</b>		<b>43 778</b>	<b>38 761</b>
<b>Total assets</b>		<b>104 534</b>	<b>111 292</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders</b>			
Share capital, share premium and other paid-in equity	14	336 764	319 283
Other reserves		-1 617	-1 608
Retained earnings		-307 258	-284 975
<b>Total equity</b>		<b>27 889</b>	<b>32 700</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions	25	20 670	19 140
Financial liabilities	23	2 993	4 668
Borrowings	23	30 288	31 636
<b>Total non-current liabilities</b>		<b>53 950</b>	<b>55 444</b>
<b>Current liabilities</b>			
Trade payables	24	6 882	6 672
Current tax liabilities	13	6 299	5 853
Other short term liabilities	26	9 223	10 372
Borrowings	23	290	251
<b>Total current liabilities</b>		<b>22 694</b>	<b>23 148</b>
<b>Total liabilities</b>		<b>76 644</b>	<b>78 592</b>
<b>Total equity and liabilities</b>		<b>104 534</b>	<b>111 292</b>

# Consolidated Statement of Cash Flows.

1 January - 31 December

Amounts in USD 1 000	Note	2017	2016
<b>Net cash flow from operating activities</b>			
Income/(loss) before income taxes		<b>-21 926</b>	<b>-52 931</b>
<b>Adjustments for:</b>			
Withholding tax expenses		-359	1 219
Total taxes paid		449	-522
Depreciation and ordinary amortisation	16, 17	6 779	7 677
Multi-client amortisation and impairment	16	8 613	27 722
Impairment of other long term assets	16, 17	3 626	808
Cost of share-based payment		55	245
Change in trade receivables		-2 541	10 046
Change in inventories		654	3 900
Change in trade payables		210	-3 767
Change in other working capital		1 563	2 317
Financial gain on bond repayment		-836	0
Amortisation of interest		2 464	2 413
<b>Net cash flow from operating activities</b>		<b>-1 249</b>	<b>-873</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment		-2 521	-3 398
Investment in multi-client library and JIP test		-6 819	-11 500
Sale of financial assets		0	1 375
<b>Cash used in investing activities</b>		<b>-9 340</b>	<b>-13 523</b>
<b>Financial activities:</b>			
Financial lease payments - principal		-228	141
Proceeds from new loan		8 500	0
Repayment/settlement of loan and FRA		-10 454	-1 143
Proceeds from rights issue	14	17 426	0
Payment of interest on bonds		-2 145	-2 313
<b>Cash used in/provided by financial activities</b>		<b>13 099</b>	<b>-3 315</b>
<b>Net change in cash</b>		<b>2 510</b>	<b>-17 711</b>
Cash balance beginning of period		14 038	31 749
Cash balance end of period		16 548	14 038
<b>Net change in cash</b>		<b>2 510</b>	<b>-17 711</b>
Interest paid		-3 602	-2 471
Interest received		193	217

# Consolidated Statement of Changes in Equity.

Amounts in USD 1 000	Note	Share capital share premium and other paid-in-	Foreign currency translation reserves	Available-for-sale reserve	Retained earnings	Total equity
<b>Balance as of 1 January 2016</b>		<b>319 039</b>	<b>-1 723</b>	<b>-7 202</b>	<b>-232 144</b>	<b>77 970</b>
Income/(loss) for the year		0	0	0	-52 831	<b>-52 831</b>
Other comprehensive income		0	115	7 202	0	<b>7 317</b>
<b>Total comprehensive income</b>		<b>0</b>	<b>115</b>	<b>7 202</b>	<b>-52 831</b>	<b>-45 514</b>
Share-based payments	14	244	0	0	0	<b>244</b>
<b>Balance as of 31 December 2016</b>		<b>319 283</b>	<b>-1 608</b>	<b>0</b>	<b>-284 975</b>	<b>32 700</b>
Income/(loss) for the year		0	0	0	-22 282	<b>-22 282</b>
Other comprehensive income		0	-8	0	0	<b>-8</b>
<b>Total comprehensive income</b>		<b>0</b>	<b>-8</b>	<b>0</b>	<b>-22 282</b>	<b>-22 290</b>
Proceeds from shares issued	14	17 426	0	0	0	<b>17 426</b>
Share-based payments	14	55	0	0	0	<b>55</b>
<b>Balance as of 31 December 2017</b>		<b>336 764</b>	<b>-1 617</b>	<b>0</b>	<b>-307 258</b>	<b>27 889</b>

Oslo, 9 March 2018  
**Board of Directors and CEO of Electromagnetic Geoservices ASA**

**Sign.**

# 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, Mexico, Malaysia, Canada and the United Kingdom.

The Company is a public limited liability company incorporated and domiciled in Norway which shares and bonds 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 9 March 2018.

## Note 2 – Summary of significant accounting policies

### 2. Summary of significant accounting policies

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

#### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). 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 have been prepared on a historical cost basis, except for available-for-sale financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy.

#### 2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of EMGS and entities controlled by EMGS (subsidiaries). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with

the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual agreement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

### 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, which is measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related 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 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading

- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

## 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 US Dollars (USD). The consolidated financial statements are presented in 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 by the Group's entities at their respective functional currency spot rate on the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

### 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 reporting 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 received. 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. Revenue is recognised as follows:

### a) Proprietary contract sales

The Group performs EM services under contract for a specific customer, whereby the EM data is owned by the customer. The Group recognises contract revenues (whether priced as Lump Sum, Day Rate or Unit Price) based on the percentage of completion method (POC). Progress is measured in a manner generally consistent with the physical progress on 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.

### ***Mobilisation Fees***

Revenues for mobilisation are usually contracted with the customer and should cover the vessel's 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 an agreement has been signed 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***

Sales made prior to commencement of acquisition for a project and sales while the projects are in progress, are presented as pre-funding revenues. 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 in a manner generally consistent with the physical progress on 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.

#### ***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 is made accessible to the customer.

#### ***Uplift***

Uplift revenues can arise if a customer that has already bought a license for EM data, is awarded acreage covered by the data bought. Uplift revenue is recognised when the customer is awarded the acreage.

## **2.7 Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recorded as a reduction of the asset up to the amount that covers the cost price.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

## **2.8 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, as follows:

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

\*Machinery and equipment are mainly placed onboard the vessel. Parts of the equipment are under water during operation and have a shorter useful life.

\*\* A cluster consists of IT equipment comprising of large number 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 2.12).

Assets under construction are carried at cost, less accumulated impairment. Depreciation commences when the asset is ready for its intended use.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

## 2.9 Leases

The determination whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is assessed for 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 or assets, even if that right is not explicitly specified in an arrangement.

### 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 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.

## 2.10 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.

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
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is 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.

A multi-client project is considered complete when all components or processes associated with the acquisition and processing of the data are finished, and all components of the data have been properly stored and made ready for delivery to customers.

Based on amendment to IAS 38, the Group changed its principles for multi-client amortisation from 1 January 2016. After a project is completed, a straight-line amortisation is applied. The straight-line amortisation is assigned over the useful life, which is set at four years. The straight-line amortisation is distributed evenly through the financial year independently of sales during the quarters.

## 2.11 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.

## 2.12 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, such as for goodwill and intangible assets with infinite useful life, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transaction can be identified, an appropriate valuation model is applied.

The Group bases its impairment calculation on budget and forecast calculations.

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.

## 2.13 Financial instruments

### Classification of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments within the scope of IAS 39 are classified in the following categories:

- fair value with changes in value through profit or loss (FVPL)
- loans and receivables
- held to maturity investments (HTM)
- financial instruments available for sale (AFS)
- other liabilities

The classification is dependent on the type of instrument and the purpose for which the investments were acquired or originated.

Financial assets at FVPL are financial assets held for trading. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading as the Group does not apply hedge accounting.

Loans and receivables are non-derivative financial assets with fixed or determinable cash flows that are not quoted in an active market.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group has the positive intention and ability to hold until maturity

All other financial assets, except for derivatives, are classified as AFS and would generally include equity and debt

securities.

Other financial liabilities are generally the main category for loans and borrowings.

The Group has financial instruments in the following categories:

FVPL:	Derivative instruments – Forward rate agreement (Note 24)
Loans and receivables:	Trade receivables and Other current receivables (Note: 19,21)
Other financial liabilities:	Includes most of the Group's financial liabilities including accounts payable and other current and non-current liabilities. (Note: 23, 24, 26)

#### **Initial recognition and subsequent measurement**

FVPL: Financial derivatives that are not designated as hedging instruments are categorised as held for trading and initially measured at their fair value. Subsequent changes in the fair value are recognised in the profit or loss. The Company has entered into forward rate agreement, the changes in fair value is therefore presented under Net financial items.

Loans and receivables are initially recognised at fair value plus directly attributable transaction expenses. Subsequently, these instruments are measured at their amortised cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Other financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Subsequently these liabilities are measured at their amortised cost using the effective interest rate method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

#### **Impairment of financial assets**

Financial assets valued at amortised cost are written down when it is objective evidence that the instrument's cash flows have been negatively affected by one or more events occurring after the initial recognition of the instrument. The impairment loss is recognised in the income statement. The loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted with the instruments original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced.

#### **De-recognition of financial instruments**

A financial asset is derecognised when the rights to receive cash flows from the asset have expired; or the Group has transferred its rights to receive cash flows from the asset and either (i) the Group has transferred substantially all the risks and rewards relating to the instrument, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards relating to the instrument, but has transferred control of the asset.

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, this is treated as derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

### **2.14 Taxes**

#### **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 reporting 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. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax

regulations are subject to interpretation and establishes provisions where appropriate.

**b) Deferred tax**

Deferred tax is provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred 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 tax asset is realised or the deferred tax liability is settled.

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

**c) Sales tax**

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

## 2.15 Employee benefits

**a) Pension obligations**

From 1 December 2014, the Company has operated a defined contribution plan.

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

**b) Share-based payments**

The Group operates an equity-settled, share-based compensation plan. The cost of equity-settled transactions with employees 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 16.

The cost of equity-settled transactions is recognised in Employee expenses, 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.

## 2.16 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.

## 2.17 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.

## 2.18 Changes in accounting policies and disclosures

The Group adopted for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The new and amended IFRS and IFRIC interpretations are not expected to have any significant effect for the Group.

## 2.19 Standards and interpretations issued, but not yet adopted

The financial statements have been prepared based on standards effective for the year ending 31 December 2017. IASB has issued the following standards/amendments to the following standards that are not yet effective:

- IFRS 9 Financial Instruments (effective date 1 January 2018)
- IFRS 15 Revenue from contract with customers (effective date 1 January 2018)
- IFRS 16 Leases (effective date 1 January 2019)

### IFRS 9 Financial instruments

IFRS 9 brings together all three aspects of the accounting for financial instruments project; classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. The Group expects no significant impact on its balance sheet and equity when implementing IFRS 9.

### IFRS 15 Revenue from contract with customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

The Company has analysed possible effects from implementing the standard on the Group's financial statements. For contract sales and late sales, no material effects are expected following the implementation of IFRS 15. Currently, the pre-funding revenues are recognised based on percentage of completion. The multi-client pre-funding agreements will no longer be recognised under the percentage of completion method. Instead pre-funding revenues should be recognised as point(s) in time when the data is delivered to the customer. The company did not have any pre-funded acquisition work ongoing as of 31 December 2017. The implementation will therefore not affect the Consolidated Statement of Financial Position as of 1 January 2018.

### IFRS 16 Leases

IFRS 16 Leases replaces existing IFRS leases requirements, IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a

single on-balance sheet model similar to accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of “low-value” assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The Group leases vessels for its operation and will have to change the recognition of these lease contracts accordingly. The vessel leases will be recorded as assets and corresponding financial lease liability in the balance sheet. The vessel lease expenses will be moved from charterhire, fuel and crew expenses to depreciation and interest expenses.

Other issued standards and interpretations, that are not yet effective, are not expected to be relevant for the Group, and will not have an impact on the financial statements.

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 and loans and borrowings. 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 is exposed to market risk, credit risk and liquidity risk. The Group's management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

The Group manages the exposure level of market risk by hedging its exposure to exchange rate fluctuations related to the bond loan. The Group does not apply hedge accounting.

#### 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 loans and borrowings and AFS investment which was sold in January 2016.

The sensitivity analysis in the following sections relate to the position as at 31 December 2017 and 2016. The sensitivity analysis has 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 excludes 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 2017 and 2016.

#### *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 loan with floating interest rate.

With all other variables held constant, for every one -percentage point hypothetical increase in NIBOR, the Group's annual net interest expense on the long-term loan will increase by approximately 328 at 31 December 2016 (2016: 311).

#### *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 has USD as functional currency, hence the foreign currency risk is primarily with respect to NOK in EMGS ASA. Approximately 99% of the Group's sales are denominated in USD, whilst approximately 56% of costs are denominated in USD in 2017.

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 NOK rate	Effect on income/(loss) before tax
2017	+20%	5 307
	-20%	-5 307
2016	+20%	7 324
	-20%	-7 324

#### (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 20 for aging analysis of trade receivables.

##### *i) Trade receivables*

The Group trades with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Although two major customers amounted to a significant part of 2017 revenues, these customers were large international oil companies, and considered creditworthy.

The requirement for an impairment charge 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

Liquidity risk is the risk that the Company will not have sufficient liquidity to be able to meet its financial obligations. EMGS' sources of liquidity include cash balances, cash flow from operations, borrowings, its existing and new bank facilities and further debt and equity issues. It is the Company's objective to balance these sources of liquidity. As EMGS expects a slow market for its services the next year, the Company has reduced the costs significantly in 2017 and 2016 to strengthen the cash balance. In order to improve the financial position, the Company announced a proposed comprehensive refinancing on 2 March 2018. The comprehensive refinancing consists of two elements; (i) a rights issue with gross proceeds of up to USD 12.5 million, whereof USD 10.0 million is underwritten (the "Rights Issue"); and (ii) issuance of a new, fully underwritten convertible bond loan with a total nominal amount of up to USD 32.5 million (the "Bond Issue"). The Rights Issue will provide the Company with financing for general corporate purposes. The net proceeds from the Bond Issue will be used to refinance the Company's existing bond issue. The proposed terms of the Bond Issue include a reduction of the free cash covenant (USD 2.5 million compared with USD 10 million under current bond loan), denomination in USD (new interest rate based on 3M USD LIBOR plus a margin of 5.5 per cent, compared with 3M NIBOR plus a margin of 6.0 per cent under current bond loan), an extension of the maturity (2023 compared with 2019 under current bond loan) and a conversion price equal to 135% of the subscription price in the Rights Issue.

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 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
<b>Year ended 31 December 2017</b>								
Interest bearing loans and borrowings	0	579	592	1 178	33 934	0	0	36 283
Trade and other payables	0	11 261	2 251	5 550	0	3 344	0	22 406
Forward rate agreement	0	0	0	0	2 993	0	0	2 993
Other financial liabilities	0	71	72	147	303	173	0	766
<b>Year ended 31 December 2016</b>								
Interest bearing loans and borrowings	0	553	564	1 123	2 239	32 346	0	36 825
Trade and other payables	0	12 225	1 409	9 256	0	0	0	22 890
Forward rate agreement	0	0	0	0	0	4 668	0	4 668
Other financial liabilities	0	48	67	136	280	463	0	994

See Note 23 for financial liabilities.

The NOK 246 million bond loan contains financial covenants; free cash and cash equivalents of at least 10 000, and capital employed ratio of minimum 1/3. In addition, the bond agreement restricts the Company's ability, among other things, to sell multi-client library, declare or make any dividend payments, incur additional indebtedness, change our business, and enter speculative financial derivative agreements.

#### i) Capital management

For the purpose of the Group's 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.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.

The Group manages its capital structure and adjusts it considering changes in economic conditions. To maintain or adjust the capital structure, the Group may refinance its debt, issue new shares or sell assets. Due to the current market conditions, the Group considers a share issuance or a loan agreement to be potential sources for additional funding.

## Note 4 – Significant accounting estimates, judgements and assumptions

The preparation of the Group's financial statements requires management to make estimates, judgements and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. 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 periods. Estimates and judgements 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 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.

### Revenue recognition

The Group uses the percentage of completion method in accounting for its proprietary contracts and multi-client pre-funding revenues. Progress is measured in a manner generally consistent with the physical progress on the project. 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.

### 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 of disposal and its value in use. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the financial budget approved by the management and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being (CGU) tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to the multi-client library, JIP (see description under Assets under construction below) and other assets with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are disclosed and further explained in Note 16.

### JIP

At least annually, management forecasts future cash flows from the Joint Industry Project ("the JIP"). The JIP is the Next Generation EM equipment. The project has been on-going since 2012 and continued throughout 2017. EMGS performed its first commercial survey with the JIP equipment in 2017. The net carrying value of the JIP as of 31 December 2017 was 11 065 (2016: 12 993). Following the commercialisation of the JIP in 2017, the JIP assets were reclassified from assets under construction to property, plant and equipment in the balance sheet.

In estimating future cash flows, future market demand and additional expenses to operate the vessel. Because the inherent difficulty in estimating these factors, it is possible that future cash flows from these activities will not be sufficient to recover the existing carrying value of the JIP. See Note 17 for more details regarding the impairment test.

### Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Group is subject to income taxes in several jurisdictions. Given the wide range of international business relationships, differences arising between the actual results and the assumptions made, or future changes in such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audit by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on several factors, such as the experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Unrecognised tax assets at 31 December 2017 are 85 113 (2016: 83 468).

### 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.

## 4.2 Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

### Operating leases

The Group has entered into lease contracts on its vessels. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the vessels, that the vessel owner retains all significant risks and rewards of ownership of these vessels and the Group accounts for the contracts as operating leases.

### Development costs

Development costs are capitalised in accordance with accounting policy in Note 2.10 c). Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to established project management model. At 31 December 2017, the carrying amount of capitalised development costs is 525 (2016: 2 178).

## Note 5 – Shared revenue

The Company has since 2013 entered several cooperation agreements regarding EM multi-client surveys in the Barents Sea, Gulf of Mexico and Brazil.

EMGS has received funding and/or seismic data against a revenue share on prefunding, late sales and uplift revenues. EMGS has provided the vessel, performed the data acquisition and finally provided the data processing services. The acquired data remains the property of EMGS.

When EMGS licenses data to customers in areas subject to revenue sharing, the Company invoices and collects payments from the customers for the entire sales amount. The related accounts receivable is presented gross, while the portion due to the partner upon collection from the customer is presented as a short-term liability.

EMGS' share of the revenue from the sale of multi-client library with cooperation agreements in 2017 is 6 945 (2016: 11 099).

	EMGS' revenue share
<b>Multi-client survey</b>	
Brazil 2013	95%
Barents Sea 2013	70%
Barents Sea 2014	50%
Gulf of Mexico 2014	90%
Barents Sea 2015	50%
Barents Sea 2016	50%
Barents Sea 2017	50%

## 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 are similar in the different geographical areas.

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

### Geographic information

Revenues from external customers:

Amounts in USD 1 000	2017	2016
Europe, Middle East and Africa	31 632	18 546
North and South America	3 705	5 421
Asia and the Pacific Ocean	520	20 560
<b>Total</b>	<b>35 858</b>	<b>44 527</b>

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

Two single external customers amounted to 10% or more of the Group's total revenues in 2017 (three single external customers in 2016). Total revenues from these customers were in 2017 12 979 and 5 149 (for 2016: 12 535, 11 826 and 8 041).

### Note 7 – Charter hire, fuel and crew expenses

Amounts in USD 1 000	2017	2016
Charter hire and crew expenses	10 621	18 443
Fuel	2 523	2 761
Agent fee	3	771
Withholding tax cost	4	669
Capitalisation of multi-client costs	-6 819	-10 964
Other external services	3 999	6 496
<b>Total charter hire, fuel and crew expenses</b>	<b>10 331</b>	<b>18 176</b>

### Note 8 – Employee expenses

Amounts in USD 1 000	2017	2016
<b>Employee expenses</b>		
Salaries	13 361	19 124
Social security tax	1 666	2 625
Pension costs (Note 22)	1 012	1 337
Other payments	964	1 765
Cost of share based payment (Note 15)	54	246
<b>Total employee expenses</b>	<b>17 057</b>	<b>25 097</b>
<b>Compensation of key management personnel of the Group</b>		
Salary	743	1 319
Bonus paid in the year	363	0
Share options	36	64
Pension benefits	24	62
Other benefits	124	332
<b>Total management remuneration</b>	<b>1 290</b>	<b>1 776</b>

The average number of full-time equivalents was 133 in 2017 (2016: 191).

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

## Note 9 – Other operating expenses

Amounts in USD 1 000	2017	2016
Office rental and housing expenses	1 852	2 501
Consumables and maintenance	873	1 330
Consultancy fees *	1 868	2 695
Travel expenses	481	875
Insurance	407	651
Marketing	182	189
Other operating expenses	671	1 896
<b>Total other operating expenses</b>	<b>6 334</b>	<b>10 137</b>
<b>* Fees to auditor included in consultancy fees:</b>		
Statutory audit services	153	169
Further assurance services	25	40
Tax advisory services	60	104
Other non-audit services	0	2
<b>Total fees to auditor</b>	<b>237</b>	<b>316</b>

The fees to auditor do not include VAT.

## Note 10 – Research and development costs

Research and development costs consist of 844 (2016: 851) charged to the income statement as part of operating expenses.

Employee costs capitalised as development amounted to 556 (2016: 544). The capitalised employee costs are mainly related to software project and the JIP.

## Note 11 – Financial items

Amounts in USD 1 000	2017	2016
<b>Financial income:</b>		
Interest income on short term bank deposits	192	217
Foreign exchange gains related to loans and receivables	21 995	24 976
Foreign exchange gains related to liabilities at amortised cost	0	386
Currency gain on forward agreement	2 143	924
Financial gain on repayment of bond	0	0
<b>Total financial income</b>	<b>24 330</b>	<b>26 502</b>
<b>Financial expenses:</b>		
Interest expense on financial leases and bank borrowings	1 413	13
Interest expense on bonds	2 464	2 413
Foreign exchange losses related to loans and receivables	23 898	23 850
Foreign exchange gains related to liabilities at amortised cost	1 388	0
Reclassification of accumulated loss on available-for-sale financial asset	0	7 220
Other financial expenses	211	846
<b>Total financial expenses</b>	<b>29 373</b>	<b>34 343</b>
<b>Net financial items</b>	<b>-5 043</b>	<b>-7 841</b>

The exchange rate effects in 2017 and 2016 are mainly related to bond loan, accounts receivables and trade payables in NOK in EMGS ASA, and accounts receivables and trade payables in NOK or other currencies than USD in other group companies.

## Note 12 – Income tax expense

Amounts in USD 1 000	2017	2016
Change in deferred tax asset	0	0
Current tax	356	- 100
<b>Total income tax expense</b>	<b>356</b>	<b>- 100</b>

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	2017	2016
Income/(Loss) before tax	-21 926	-52 931
Tax at the domestic rate of 24%	-5 262	-13 233
Non-deductible expenses	- 84	- 158
Change in non recognised deferred tax asset	1 646	9 914
Effect of change in tax rate	3 701	3 477
Foreign income taxes	356	- 100
<b>Tax charge</b>	<b>356</b>	<b>- 100</b>

## Note 13 – Deferred tax

Amounts in USD 1 000	2017	2016
<b>Deferred taxes detailed:</b>		
Property, plant and equipment	263	- 7 430
Inventory	- 26	- 245
Accrued foreign income taxes	-1 449	-1 405
Other accruals	0	- 343
Loss carried forward	-83 901	-74 045
<b>Total deferred tax (asset)/liability</b>	<b>-85 113</b>	<b>-83 468</b>
<b>Non-recognised deferred tax assets</b>		
	<b>85 113</b>	<b>83 468</b>
<b>Net deferred tax asset</b>	<b>0</b>	<b>0</b>

Deferred tax assets are recognised only to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

Unused tax losses are generated in Brazil, Norway, Mexico, Malaysia and the US. It can be carried forward indefinitely in Brazil, Mexico, Norway and Malaysia whilst in the US it can be carried forward in 20 years.

The Group's temporary differences associated to investment in subsidiaries, for which deferred tax liability has not been recognised, is immaterial both for 2017 and 2016.

The current tax liabilities of 6 299 mainly consist of accruals for taxes related to operations in Brazil and Canada.

## Note 14 – Share capital, share premium and other paid in capital

Amounts in USD 1 000 (except number of shares)	Number of shares	Ordinary share capital	Share premium	Other paid-in capital	Total
<b>At 1 January 2016</b>	<b>1 311 765 555</b>	<b>39 365</b>	<b>261 230</b>	<b>18 444</b>	<b>319 039</b>
Proceeds from shares issued	5	0	0	0	0
Share consolidation	-1 278 971 421	0	0	0	0
Share-based payment	0	0	0	244	244
<b>At 31 December 2016</b>	<b>32 794 139</b>	<b>39 365</b>	<b>261 230</b>	<b>18 688</b>	<b>319 283</b>
<b>At 1 January 2017</b>	<b>32 794 139</b>	<b>39 365</b>	<b>261 230</b>	<b>18 688</b>	<b>319 283</b>
Share capital reduction	-36 187	0	0	36 187	0
Proceeds from shares issued	58 634 735	7 233	10 487	0	17 720
Cost of shares issued	0	0	0	-293	-293
Share-based payment	0	0	0	55	55
<b>At 31 December 2017</b>	<b>91 428 874</b>	<b>39 365</b>	<b>271 717</b>	<b>54 636</b>	<b>336 764</b>

In 2016, the Company's shares were consolidated so that 40 shares, each having a par value of NOK 0.25, were consolidated into one share, having a par value of NOK 10.00.

In 2017, the Company's shares 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.

The Company completed a rights issue in 2017. The rights issue resulted in gross proceeds to the Company of NOK 144 million (USD 17.7 million) through an issuance of 58 634 735 shares.

The total authorised number of ordinary shares is 98 831 473 (2016: 38 184 437) with a par value of USD 0.12 (NOK 1) per share. All issued shares are denominated in NOK and fully paid.

### The largest shareholders as of 31 December 2017:

	Number of ordinary shares	Percentage
Siem Investments Inc.	21 869 450	23.92%
Perestroika AS	20 560 847	22.49%
Morgan Stanley & Co. LLC	18 074 938	19.77%
Bækkelaget Holding AS	3 010 000	3.29%
Sportsmagasinet AS	2 575 001	2.82%
Rosenfond Investering AS	1 500 000	1.64%
Kristian Falnes AS	1 050 000	1.15%
NHO - P665AK	902 932	0.99%
Nordnet Livsforsikring AS	759 919	0.83%
DNB Navigator (II)	711 279	0.78%
Statoil Pensjon	701 458	0.77%
Rygg, Jan Wiggo	403 234	0.44%
Haav Holding AS	400 000	0.44%
Jackwitz, Svein-Erik	381 832	0.42%
Galtung, Lars Otto	350 000	0.38%
Nordnet Bank AB	341 081	0.37%
J&J Investment AS	340 000	0.37%
Øverland, Jarle	340 000	0.37%
Rage, Per Egil	300 000	0.33%
Falnes, Olav Kristian	300 000	0.33%
Other	16 556 903	18.11%
<b>Total</b>	<b>91 428 874</b>	<b>100.00%</b>

## Note 15 – Share based payment transactions

Share options are granted to employees.

The expense recognised for employee services during the year is:

Amounts in USD 1 000	2017	2016
Expense arising from share based payment transactions	54	244

The vesting period is the period during which the conditions to obtain the right to exercise are to be satisfied. The options granted 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 CEO has an agreement that differ from the regular vesting schedule in the option program.

The options are granted in November 2015 and vest as follows:

- 33.33 % three years following the Grant Date
- 33.33 % four years following the Grant Date
- 33.33 % five 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 option granted during the year ended 31 December 2015 as no options were granted in 2016 and 2017:

	2015
Expected volatility	66 %
Risk free interest rate	1.01%
Expected life of options (years)	5.8
<u>Weighted average share price (USD)</u>	<u>0.06</u>

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:

	2017		2016	
	Average exercise price in USD per share	Options	Average exercise price in USD per share	Options
At 1 January	22.05	423 024	0.58	18 847 090
Granted	0	0	0	0
Exercised	0	0	0	0
Released	0	0	0	358 083
Forfeited	27.93	52 550	2.26	655 075
Expired	27.93	19 675	19.80	11 050
Modification - converted as of July 1	0	0	0.57	17 399 858
<b>At 31 December</b>	<b>18.33</b>	<b>350 799</b>	<b>22.05</b>	<b>423 024</b>
<b>Exercisable at 31 December</b>	<b>62.38</b>	<b>95 200</b>	<b>54.91</b>	<b>148 575</b>

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

#### 2017

	In USD per share	Options
2018	56.79	6 550
2019	93.68	38 500
2020	1.21 and 43.68	109 833
2021	1.21, 18.98, 20.68 and 35.82	112 583
2022	1.21	83 333
		350 799

#### 2016

	In USD per share	Options
2017	26.70	22 550
2018	54.13 and 63.85	11 100
2019	72.18 and 89.29	51 125
2020	1.16 and 41.64	131 083
2021	16, 18.09, 19.71 and 34.14	123 833
2022	1.16	83 333
		423 024

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 is 3.66 years (2016: 3.99 years).

The weighted average fair value of options granted during the year 2015 was USD 0.05. No options were granted in 2016 and 2017.

## Note 16 – Intangible assets and goodwill

Amounts in USD 1 000	Software and licenses	Patents	Multi-client library	Total	Goodwill
<b>Year ended 31 December 2016</b>					
Opening carrying value	2 477	1 224	42 267	45 970	14 422
Additions	0	0	9 787	9 787	0
Transferred from assets under construction to intangible assets	218	0	0	218	0
Accumulated costs on disposals	0	0	0	0	0
Amortisation charge	-1 327	- 137	-11 244	-12 708	0
Accumulated depreciation on disposals	0	0	0	0	0
Impairment	0	0	-16 478	-16 478	-14 422
<b>Closing carrying value</b>	<b>1 368</b>	<b>1 087</b>	<b>24 332</b>	<b>26 789</b>	<b>0</b>
<b>At 31 December 2016</b>					
Accumulated cost	15 042	3 667	142 052	164 644	0
Accumulated amortisation and impairment	-13 674	-2 580	-117 720	-137 855	0
<b>Net carrying value</b>	<b>1 368</b>	<b>1 087</b>	<b>24 332</b>	<b>26 789</b>	<b>0</b>
<b>Year ended 31 December 2017</b>					
Opening carrying value	1 368	1 087	24 332	26 787	0
Additions	0	0	4 153	4 153	0
Transferred from assets under construction to intangible assets	290	0	0	290	0
Accumulated costs on disposals	0	0	0	0	0
Amortisation charge	-1 050	- 137	-8 613	-9 800	0
Accumulated depreciation on disposals	0	0	0	0	0
Impairment	0	0	-3 591	-3 591	0
<b>Closing carrying value</b>	<b>609</b>	<b>950</b>	<b>16 280</b>	<b>17 839</b>	<b>0</b>
<b>At 31 December 2017</b>					
Accumulated cost	15 332	3 667	146 204	169 087	0
Accumulated amortisation and impairment	-14 723	-2 717	-129 924	-151 245	0
<b>Net carrying value</b>	<b>609</b>	<b>950</b>	<b>16 280</b>	<b>17 842</b>	<b>0</b>

Asset	Estimated useful life
Patents	10 – 15 years
Software and licenses	3 years
Lease agreements	2.5 – 3.5 years
Multi-client library	4 years

### Patents

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

### Impairment of multi-client library

The Group performs impairment tests when there are indicators of impairment and at least once a year. The Group considers the relationship between the total revenue forecast and the book value of each multi-client project when reviewing for indicators of impairment, hence the book value of the multi-client projects is highly influenced by the future sales forecasts.

The Group recorded impairments of the multi-client library of 3 591 in 2017 and 16 478 in 2016. The impairment test was done for each multi-client project individually. The net present value of the future sales for each project was compared to the book value of the project. When calculating the net present value of future sales, a discount rate of 15% was used. The sales forecasts were adjusted downwards for a project in the US Gulf of Mexico, Canada and Indonesia in 2017. The interest for buying EM multi-client data in the US Gulf of Mexico has been low in 2015 to 2017. A significant part of the MC acreage is located in sub-salt areas, which are typically in remote deeper water where exploration appetite is limited in the current oil price environment. After the impairment, the book value of the multi-client library located in the US Gulf of Mexico amounted to 200 and the book value of the multi-client library in Indonesia amounted to 546. In 2016, the

Group recorded impairment on projects in the US Gulf of Mexico and Indonesia.

Multi-client revenue recognised in 2017 amounted to 32 388 (2016: 22 730).

## 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
<b>Year ended 31 December 2016</b>					
Opening carrying value	14 356	1 719	697	16 772	26 566
Additions	718	534	0	1 252	4 804
Accumulated costs on disposals	- 881	- 101	0	- 982	0
Transferred from assets under construction to PPE	2 089	0	0	2 089	-2 307
Depreciation charge	-4 536	-1 292	- 385	-6 213	0
Accumulated depreciation on disposals	881	101	0	982	0
Impairment	0	0	0	0	- 808
<b>Closing carrying value</b>	<b>12 627</b>	<b>961</b>	<b>312</b>	<b>13 901</b>	<b>28 255</b>
<b>At 31 December 2016</b>					
Accumulated cost	125 567	23 900	12 375	161 842	28 255
Accumulated amortisation and impairment	-112 940	-22 939	-12 063	-147 941	0
<b>Net carrying value</b>	<b>12 627</b>	<b>961</b>	<b>312</b>	<b>13 901</b>	<b>28 255</b>
<b>Year ended 31 December 2017</b>					
Opening carrying value	12 627	961	312	13 901	28 255
Additions	0	0	0	0	3 072
Accumulated costs on disposals	0	0	0	0	0
Transferred from assets under construction to PPE	27 925	0	0	27 925	-28 215
Depreciation charge	-4 751	- 502	- 292	-5 545	0
Accumulated depreciation on disposals	0	0	0	0	0
Impairment	0	0	0	0	0
<b>Closing carrying value</b>	<b>35 801</b>	<b>459</b>	<b>20</b>	<b>36 281</b>	<b>3 112</b>
<b>At 31 December 2017</b>					
Accumulated cost	153 492	23 900	12 375	189 767	3 112
Accumulated amortisation and impairment	-117 691	-23 441	-12 355	-153 486	0
<b>Net carrying value</b>	<b>35 801</b>	<b>459</b>	<b>20</b>	<b>36 281</b>	<b>3 112</b>

Asset	Estimated useful life
Machinery and equipment	3 – 8 years
Hardware and furniture	3 - 5 years
Cluster	5 years

### Assets under construction

Assets under construction are internal capital expenditure projects that are not completed. These projects are mainly development and production of acquisition the EM equipment, including receivers, the source and the navigation system, supporting a more efficient operation and improved data quality of 2 632 (2016: 27 615), also interpretation and modelling software of 478 (2016: 640). The impairment of 49 in 2017 was software development cost that will not be commercialised.

#### JIP

EMGS has been working on a Joint Industry Project ("the JIP"), supported by Shell and Statoil, for developing the Next Generation EM equipment. The benefit of using the JIP equipment is deeper penetration and significantly improved imaging at increased burial depths. The improved imaging leads to improved confidence and enhanced interpretation possibilities. The project commenced 2012 and the prototype equipment was completed in 2017 with its first commercial survey summer 2017. On completion, the value of the JIP within assets under construction of 27 602 was moved to machinery and equipment, adding to the JIP equipment already held there giving a carrying value at year end of 31 735. See Note 25 for funding from the JIP partners recorded as provision.

### Impairment test of the JIP

The Group performs impairment tests when there are indicators of impairment and at least once a year. The Group considers the relationship between the total revenue forecast and the total book value of the JIP and possible future investments when reviewing for indicators of impairment.

The recoverable amount of the JIP equipment was higher than the book value as of 31 December 2017, and no impairment was recorded. The recoverable amount was determined based on cash flow projections from the 2018 budget and assumptions regarding additional revenue stream from the JIP equipment. The discount rate applied to cash flow projections was 15%.

The Company used the best estimate of additional revenue stream from the JIP equipment compared with the conventional equipment as revenue forecast in the impairment model. The JIP opens a new market for the Group as it increases the water depth from 3 000 meters as the limit on the conventional source to 4 500 meters on the JIP source.

The discount rate used in the net present value calculation was based on the specific circumstances of the Group and was derived from its weighted average cost of capital (WACC). The WACC took both debt and equity into account. The cost of equity was derived from the expected return on investment by the Group's investors. The cost of debt was based on the interest-bearing borrowings the Group is obliged to service. The beta factor was in line with the industry beta.

### Finance leasing included in property, plant and equipment

Amounts in USD 1 000	Machinery and equipment	Hardware and furniture	Total
<b>Year ended 31 December 2016</b>			
Cost of capitalised finance leases	944	537	1 481
Accumulated depreciation	- 551	- 60	- 611
<b>Net carrying value</b>	<b>393</b>	<b>477</b>	<b>870</b>
<b>Year ended 31 December 2017</b>			
Cost of capitalised finance leases	944	537	1 481
Accumulated depreciation	- 866	- 239	- 1 105
<b>Net carrying value</b>	<b>78</b>	<b>298</b>	<b>376</b>

The amount of property, plant & equipment pledged as security for liabilities has a net carrying value of 376 as of 31 December 2017 (2016: 870).

### Note 18 - Other receivables

Amounts in USD 1 000	2017	2016
Prepayments	4 243	4 399
Receivables VAT and taxes	553	1 209
Other receivables	1 161	1 471
<b>Total other receivables</b>	<b>5 957</b>	<b>7 080</b>

### Note 19 – Spare parts, fuel, anchors and batteries

Amounts in USD 1 000	2017	2016
Equipment components and parts, at cost	5 676	6 150
Anchors and batteries, at cost	876	847
Fuel, at cost	648	857
<b>Total Spare parts, fuel, anchors and batteries</b>	<b>7 200</b>	<b>7 854</b>

The Group did an impairment of 1 942 equipment components and parts in 2016 (2015: 561).

## Note 20 – Trade receivables

Amounts in USD 1 000	2017	2016
Accounts receivable	10 389	6 488
Accrued revenues	686	2 046
<b>Total trade receivables</b>	<b>11 075</b>	<b>8 534</b>

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

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.

Per 31 December 2017 EMGS did not find it necessary to make any provision for doubtful trade receivables (2016: 0).

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

Amounts in USD 1 000	Total	Not Due	< 30	30 - 60 days	60 - 90 days	90 - 120 days	> 120
	11 075	9 255	1 820	0	0	0	0

## Note 21 – Cash and cash equivalents

Amounts in USD 1 000	2017	2016
Cash	16 548	14 038
Restricted cash	6 521	4 841
<b>Total cash and cash equivalents</b>	<b>23 069</b>	<b>18 879</b>

Cash earns interest at floating rates based on daily bank deposit rates.

Restricted cash consist of employee taxes withheld, loss on forward rate contract, and accrual of service taxes in Brazil, see Note 30. Accrual of service taxes in Brazil of 3 524 (2016: 3 586) is classified as long term restricted cash.

## Note 22 – Employee benefit obligations

The Company is required to have an occupational pension plan in accordance with the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon"). The Company's pension arrangements fulfill the requirements of the law.

In 2016, the defined contribution plan involved a contribution level of 7 % of Base Salary from 0 to 7.1 G and 25.1 % of Base Salary from 7.1 up to 12 G, where G is the base amount (Folketrygdens grunnbeløp). In January 2017, EMGS changed the contribution level to 5 % of Base Salary from 0 to 7.1 G and 15 % of Base Salary from 7.1 G up to 12 G where G equals to NOK 93 634 as of 31 December 2017.

The Company's contribution to the Norwegian defined contribution plan for the year ended 31 December 2017 is 661.

As of 31 December 2017, there are 77 employees covered by the defined contribution pension plan (2016: 91).

## Defined contribution schemes

Employees not eligible for coverage under the defined contribution plan applicable in Norway are eligible to participate in other Company pension schemes or to receive a pension compensation. All the schemes are considered defined contribution plans. For some of the schemes, subject to statutory limitations, employees may make voluntary contributions in addition to the Company's contributions. Total pension scheme contributions made by the Company in 2017 is 1 012 (2016: 1 377).

## Note 23 – Financial liabilities

Amounts in USD 1 000	Interest rate	Maturity	2017	2016
<b>Non-current</b>				
NOK 246 million bond	3 month NIBOR +6.00%	27/06/2019	29 811	30 894
Financial lease liabilities	3 month NIBOR +3.65% and 5.36%	2-3 years	476	743
Forward rate agreement		27/06/2019	2 993	4 668
			<b>33 281</b>	<b>36 305</b>
<b>Current</b>				
Financial lease liabilities	3 month NIBOR +3.65% and 5.36%	Up to 1 year	290	251
			<b>290</b>	<b>251</b>
<b>Total financial liabilities</b>			<b>33 571</b>	<b>36 556</b>

### NOK 246 million bond

On 26 June 2013, EMGS secured a NOK 350 million bond bearing an interest at 3 months NIBOR + 6.00% p.a. On 22 December 2015, EMGS bought back NOK 80 million nominal outstanding amount at 80% of par. Following settlement, the nominal outstanding amount of the bond was NOK 270 million. In March 2017, 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 nominal amount of NOK 24 million was bought back, and the nominal amount outstanding decreased to NOK 246 million.

The bond is unsecured.

### Forward rate agreement

In February 2015, EMGS entered into a forward rate agreement with the purpose of reducing its exposure to exchange rate fluctuations related to the NOK 350 million bond loan. In June 2016, the forward contract was amended by a new contract. The NOK amount was reduced to NOK 270 million and the settlement date was postponed to 27 June 2019. The negative market value related to the NOK 270 million was continued in the amended contract, while the negative market value of the difference between NOK 350 million and NOK 270 million of 734 was paid in 2016. The Company will transfer a collateral if the negative market value of the contract exceeds USD 4 million. Until end of 2017, the threshold of USD 4 million was gradually reduced to 0 for the remaining period of the contract.

The Company paid the negative market value of the difference between NOK 270 million and NOK 246 million of USD 0.4 million when NOK 24 million of the bond was bought back in 2017.

The forward rate agreement is not treated as hedge, as the agreement is not specifically designated as hedge of firm commitments or certain cash flow. Consequently, the forward rate agreement is recorded at estimated fair value with gains and losses included in the line Net gains/(losses) of financial assets and liabilities in the Consolidated income statement.

### 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.

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	2017	2016
6 months or less	30 577	31 888
6-12 months	0	0
1-5 years	0	0
Over 5 years	0	0
<b>Total</b>	<b>30 577</b>	<b>31 888</b>

The maturity of non-current borrowings is as follows:

Amounts in USD 1 000	2017	2016
1-3 years	30 287	31 468
4-5 years	0	169
Over 5 years	0	0
<b>Total</b>	<b>30 287</b>	<b>31 637</b>

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

Amounts in USD 1 000	Carrying amounts		Fair values	
	2017	2016	2017	2016
NOK 246 million bond	29 811	30 894	24 296	15 138
Leasing liabilities	766	994	766	994

The fair value measurements are calculated using observable inputs (level 2). The fair value is calculated based on the last observable pricing of the bond in 2016, which was the 49% of par value in September 2016.

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

Amounts in USD 1 000	2017	2016
USD denominated	0	0
NOK denominated	30 577	31 888
<b>Total</b>	<b>30 577</b>	<b>31 888</b>

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

	2017	2016
NOK 246 million bond	7.82%	7.82%
Leasing liabilities	4.28%	3.76%

### Fair values

The fair value hierarchy disclose how fair value is determined for financial instruments recorded at fair value in the consolidated financial statement.

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly.

Level 3: techniques for which all inputs which have a significant effect on the recorded fair value that is not based on observable market data.

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, other receivables, trade payables

and other short term liabilities approximate their respective fair values because of short maturities of those instruments. The fair value of the forward rate agreement is estimated using quotes obtained from dealers in such financial instruments.

The carrying amounts, estimated fair values of the forward rate agreement including how fair value is determined are summarised as follows:

Amounts in USD 1 000	31 December 2017			31 December 2016		
	Carrying amounts	Fair values	Hierarchy level	Carrying amounts	Fair values	Hierarchy level
<b>Financial liabilities measured at fair value</b>						
Forward rate agreement	2 993	2 993	2	4 668	4 668	2

## Note 24 – Trade payables

Trade payables are generally non-interest bearing and the payment terms are net 30 days. Fair value of the payables equals the nominal value of 6 882 (2016: 6 672).

## Note 25 - Provisions

The Group recognises a provision for prepayments from two customers in a joint industry project (the JIP). EMGS and the two customers have decided to collaborate on the development, construction, and testing of an advanced marine electromagnetic acquisition system. The prototype completed in 2017 and the provision is being released to revenue over 8 years on a straight-line method, the same period and method as the prototype is being depreciated over.

The Group has recognised 20 670 as provision for JIP prepayments per 31 December 2017 (2016: 19 140).

## Note 26 – Other short term liabilities

Amounts in USD 1 000	2017	2016
Accrued expenses	1 222	2 948
Holiday pay	1 051	1 248
Social security taxes and other public duties	4 989	5 388
Other short term liabilities	1 961	788
<b>Total other short term liabilities</b>	<b>9 223</b>	<b>10 372</b>

Accrued expenses are generally on 30 days payment terms.

## Note 27 – Finance lease obligations

The Company has finance lease agreements for receiver systems, and IT hardware.

Amounts in USD 1 000	2017	2016
<b>Finance lease liabilities – minimum lease payments:</b>		
No later than 1 year	317	308
After 1 year and no more than 5 years	498	792
After more than 5 years	0	0
<b>Total minimum lease payments</b>	<b>815</b>	<b>1,100</b>
Future finance charges on finance leases	-48	-106
<b>Present value of finance lease liabilities</b>	<b>767</b>	<b>994</b>
<b>The present value of finance lease liabilities is as follows:</b>		
No later than 1 year	290	251
After 1 year and no more than 5 years	477	743
After more than 5 years	0	0
<b>Total present value of finance lease liabilities</b>	<b>767</b>	<b>994</b>

## Note 28 - Contingencies

The Group has contingent liabilities in respect of 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	2017	2016
Guarantees on client contracts	2 596	2 225
Other guarantees/collateral	631	352
<b>Total guarantees</b>	<b>3 227</b>	<b>2 577</b>

Guarantees on office premises are valid as long as the contracts are active. All guarantees are secured by bank guarantees.

## Note 29 - Commitments

Operating lease commitments:

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

Amounts in USD 1 000	2017	2016
No later than 1 year	15 748	11 717
After 1 year and no more than 5 years	32 999	39 438
After more than 5 years	0	970
<b>Total operating lease commitments</b>	<b>48 747</b>	<b>52 125</b>

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

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	2017	2016
Charter hire	11 620	17 959
Office premises	1 502	1 981
<b>Total</b>	<b>13 122</b>	<b>19 940</b>

## Note 30 – Legal claims

EMGS is involved in the following legal processes:

EMGS is currently in a tax dispute with the City of Rio de Janeiro. The case involves the applicability of ISS which is a municipal service tax. The entire claim amount of 3 524 was placed in a judicial deposit to avoid interest and penalties.

EMGS is furthermore engaged in several tax disputes with the Brazilian internal revenue service. These disputes are related to two main categories of claims by the IRS; (i) a non-approval by the IRS of certain tax offset requests by EMGS related to a credit of Social Contribution on Net Profits (all as provided for under Brazilian law); and (ii) payment of an administrative penalty fee of 50% over a previously disputed tax credit claim. EMGS disputes all of the claims received from the IRS and has initiated administrative proceedings in Brazil to that effect. Should EMGS ultimately be unsuccessful in disputing these claims, the aggregate potential additional tax liability amounts to approximately 306 (exclusive of interest and penalties).

Under an indemnity obligation, EMGS carries certain financial exposure related to a dispute involving one of its suppliers. Based on certain recent developments and advice received by EMGS from its legal advisors, a provision in the amount of USD 750,000 has been made for this exposure. This figure consists of EMGS' best estimate of its main exposure, plus its expenses and legal fees related to handling the matter and protecting EMGS' interests.

## Note 31 – Earnings/(loss) per share

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

Amounts in USD 1 000	2017	2016
Income/(loss) attributable to equity holders of the Company	-22 282	-52 831
<b>Basic earnings per share</b>	<b>-0.37</b>	<b>-0.08</b>
<b>Diluted earnings per share</b>	<b>-0.37</b>	<b>-0.08</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands)	59 782	668 785
Effect of dilutive potential shares:		
Share options	0	0
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands)	59 782	668 785

The Company has one category of dilutive potential ordinary shares: share options.

## Note 32 – Related party transactions

The right issue completed in July 2017 was underwritten by Siem Investments Inc., Perestroika AS and RWC European Focus Master Inc. The underwriters received a guarantee commission of 1.5% of their guaranteed amount. The commissions were paid in 2017, hence no liabilities related to this commission as of 31 December 2017.

Amounts in USD 1 000	2017	2016
Siem Investments Inc.	85	0
Perestroika AS	85	0
RWC European Focus Master Inc.	85	0
<b>Total guarantee commissions</b>	<b>255</b>	<b>0</b>

## Note 33 – Investment in subsidiaries

Company	Share ownership/ voting rights 2017	Share ownership/ voting rights 2016	Equity 31 December 2017	Equity 31 December 2016	Location
emgs Americas 1 AS	100%	100%	- 510	- 9	Trondheim, Norway
CSEM Production AS	100%	100%	- 9	- 7	Trondheim, Norway
Sea Bed Logging - Data Storage Company AS	100%	100%	- 829	- 827	Trondheim, Norway
Servicios Geologicos Electromagneticos do Brasil Ltda	100%	100%	-10 104	-9 334	Rio de Janeiro, Brasil
emgs Americas Inc	100%	100%	-1 242	-1 395	Delaware, USA
Electromagnetic Geoservices Malaysia Sdn Bhd	1%/100%	1%/100%	1 060	1 496	Kuala Lumpur, Malaysia
emgs Asia Pacific Sdn Bhd	100%	100%	1 158	1 666	Kuala Lumpur, Malaysia
emgs Australia Pty Ltd	100%	100%	105	107	Perth, Australia
EMGS Global AS	100%	100%	1 164	1 028	Trondheim, Norway
emgs Sea Bed Logging Mexico S.A. de C.V.	100%	100%	-7 855	-10 974	Col. Del Valle, Mexico
emgs Shipping Mexico S. de R.L. de C.V.	99%/100%	49%/100%	- 735	2 954	Col. Del Valle, Mexico
emgs Services Mexico S.A. de C.V.	99%	99%	309	231	Col. Del Valle, Mexico
emgs Labuan Ltd	100%	100%	902	984	Labuan, Malaysia
emgs Asia Pacific Labuan Ltd	100%	100%	- 50	- 380	Labuan, Malaysia
EMGS Surveys AS	100%	100%	7 346	7 347	Trondheim, Norway
Electromagnetic Geoservices UK Ltd	100%	100%	3 300	2 992	London, UK
EM Multi-client AS	100%	100%	-28 225	-22 918	Trondheim, Norway
Electromagnetic Geoservices Canada Inc	100%	100%	-1 137	- 615	British Columbia, Canada

The Group consolidates Electromagnetic Geoservices Malaysia Sdn Bhd and emgs Shipping Mexico S. de R.L. de C.V. at 100 % as the Company has control over these companies.

Side agreements shows that EMGS has all the rights and obligations of 100 % ownership.

## Note 34 – Events after the reporting period

### Financing

On 2 March 2018, the Company announced a proposed comprehensive refinancing (the “Comprehensive Refinancing”). The Comprehensive Refinancing consists of two elements; (i) a rights issue with gross proceeds of up to USD 12.5 million, whereof USD 10.0 million is underwritten (the “Rights Issue”); and (ii) issuance of a new, fully underwritten convertible bond loan with a total nominal amount of up to USD 32.5 million (the “Bond Issue”).

The rights issue will provide the Company with financing for general corporate purposes

The net proceeds from the Bond Issue will be used to refinance the Company’s existing bond issue. The proposed terms of the Bond Issue include a reduction of the free cash covenant (USD 2.5 million compared with USD 10 million under current bond loan), denomination in USD (new interest rate based on 3M USD LIBOR plus a margin of 5.5 per cent, compared with 3M NIBOR plus a margin of 6.0 per cent under current bond loan), an extension of the maturity (2023 compared with 2019 under current bond loan) and a conversion price equal to 135% of the subscription price in the

Rights Issue.

The Comprehensive Refinancing will provide the Company with a significantly improved financial runway, stability and flexibility.

On 8 March 2018, EMGS entered into a USD 4.0 million short term loan agreement with Siem Investments Inc to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company's existing bond loan. Siem Investments Inc will receive interest of 3 months USD LIBOR plus 6.0% per annum. At the date of this Annual Report, no drawdown has been made by the Company under the loan. Siem Investments Inc is a shareholder in the Company and represented at the board of directors.

#### **Provision for indemnity liability**

Under an indemnity obligation, EMGS carries certain financial exposure related to a dispute involving one of its suppliers. Based on certain recent developments and advice received by EMGS from its legal advisors, a provision in the amount of USD 750,000 has been made for this exposure. This figure consists of EMGS' best estimate of its principal exposure, plus its expenses and legal fees related to handling the matter and protecting EMGS' interests.

# Financial statements.

EMGS ASA

# Income Statement.

1 January - 31 December

Amounts in NOK 1 000	Note	2017	2016
<b>Operating revenues</b>			
Contract sales	1, 11	13 510	171 279
Multi-client sales	1, 11	257 550	148 062
Other revenue	1, 11	6 897	0
<b>Total operating revenues</b>		<b>277 957</b>	<b>319 341</b>
<b>Operating expenses</b>			
Charter hire, fuel and crew expenses	4	73 490	133 330
Employee expenses	5, 6	134 314	193 216
Depreciation and ordinary amortisation	7	40 455	46 538
Multi-client amortisation	7	56 840	53 895
Impairment of long-term assets	7	7 444	21 151
Other operating expenses	22	49 700	88 884
<b>Total operating expenses</b>		<b>362 243</b>	<b>537 013</b>
<b>Operating income</b>		<b>-84 286</b>	<b>-217 672</b>
<b>Financial income and expenses</b>			
Financial income	16	25 237	65 788
Financial expense	16	-106 596	-295 151
<b>Net financial items</b>		<b>-81 359</b>	<b>-229 364</b>
<b>Income/(loss) before income tax</b>		<b>-165 645</b>	<b>-447 035</b>
Income tax expense	8	6 837	0
<b>Income/(loss) for the year</b>		<b>-172 481</b>	<b>-447 035</b>

# Balance Sheet.

As of 31 December

Amounts in NOK 1 000	Note	2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	7	93 990	129 090
Property, plant and equipment	7, 9	248 835	86 455
Assets under construction	7	18 168	189 021
Investments in subsidiaries	10	1 438	1 371
<b>Total non-current assets</b>		<b>362 430</b>	<b>405 937</b>
<b>Current assets</b>			
Spare parts, fuel, anchors and batteries	3	47 573	52 899
Trade receivables	9, 11, 12	72 666	18 501
Receivables group companies	12, 23	542 130	694 654
Other receivables	18	19 840	23 429
Cash and cash equivalents		92 266	41 349
Restricted cash	13	24 973	11 029
<b>Total current assets</b>		<b>799 448</b>	<b>841 861</b>
<b>Total assets</b>		<b>1 161 878</b>	<b>1 247 798</b>

# Balance Sheet.

As of 31 December

Amounts in NOK 1 000	Note	2017	2016
<b>EQUITY</b>			
<b>Paid-in-capital</b>			
Share capital	14, 15	91 429	327 941
Share premium	14, 15	971 707	886 687
Other paid-in-capital	14, 15	402 789	109 560
<b>Total equity</b>		<b>1 465 925</b>	<b>1 324 188</b>
<b>Retained earnings</b>			
Other equity	15	-902 473	-737 937
<b>Total retained earnings</b>		<b>-902 473</b>	<b>-737 937</b>
<b>Total equity</b>		<b>563 452</b>	<b>586 251</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions	19	170 340	165 472
Borrowings	7, 17	249 538	273 296
Financial liabilities	17	24 668	40 360
<b>Total non-current liabilities</b>		<b>444 546</b>	<b>479 128</b>
<b>Current liabilities</b>			
Trade payables		47 699	53 929
Payable group companies	23	42 000	56 496
Current tax liabilities	8	17 695	12 059
Public taxes and duties payable	20	13 769	16 437
Other current liabilities	21	30 368	41 400
Borrowings	24	2 348	2 100
<b>Total current liabilities</b>		<b>153 880</b>	<b>182 419</b>
<b>Total liabilities</b>		<b>598 426</b>	<b>661 547</b>
<b>Total equity and liabilities</b>		<b>1 161 878</b>	<b>1 247 798</b>

Oslo, 9 March 2018

Board of Directors and CEO of Electromagnetic Geoservices ASA

Sign.



# Cash Flow Statement.

1 January - 31 December

Amounts in NOK 1 000	2017	2016
<b>A) Cash flow from operating activities</b>		
Funds sourced from operations *)	-64 799	-312 837
Changes in inventories, accounts receivable and accounts payables	82 959	184 435
Other changes in working capital	198 551	48 139
<b>Net cash flow from operating activities</b>	<b>216 711</b>	<b>-80 263</b>
<b>B) Cash flow from investing activities</b>		
Purchase of property, plant and equipment	-238 805	-51 409
Investment in multi-client library	-34 510	-77 491
Investments in financial assets	0	12 052
<b>Net cash flow from investing activities</b>	<b>-273 315</b>	<b>-116 848</b>
<b>C) Cash flow from financial activities</b>		
Proceeds from issuance of ordinary shares	141 318	0
Proceeds from new loan	-2 088	1 785
Repayment of loan	0	0
Payment of interests on loans and financial leases	-17 766	-19 410
<b>Net cash flow from financial activities</b>	<b>121 464</b>	<b>-17 625</b>
<b>A+B+C) Net change in cash and cash equivalents</b>	<b>64 860</b>	<b>-214 736</b>
Cash and cash equivalents as 01.01	52 379	267 115
<b>Cash and cash equivalents as 31.12</b>	<b>117 239</b>	<b>52 379</b>
<b>Calculation of cash and cash equivalents</b>		
Cash and cash equivalents	92 266	41 349
Restricted cash	24 973	11 029
<b>Cash and cash equivalents 31.12</b>	<b>117 239</b>	<b>52 379</b>
<b>*) Calculation of funds sourced from operations</b>		
Income/(loss) before income tax	-165 645	-447 035
Depreciation and amortisation	97 295	100 433
Income tax expense	-656	0
Impairment of long-term assets	7 444	21 151
Cost of share-based payment	419	2 050
Amortisation of interest	20 269	20 284
Financial gain on repayment of bond	-23 925	-9 720
	<b>-64 799</b>	<b>-312 837</b>

# Notes.

## Accounting Principles

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

### Use of estimates

The management has used estimates and assumptions that have had an impact on 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.

### Revenue recognition

Revenue is recognised as follows:

#### a) Proprietary contract sales

The Group performs EM services under contract for a specific customer, whereby the EM data is owned by the customer. The Group recognises contract revenues (whether priced as Lump Sum, Day Rate or Unit Price) based on the percentage of completion method (POC). Progress is measured in a manner generally consistent with the physical progress on 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.

#### **Mobilisation Fees**

Revenues for mobilisation are usually contracted with the customer and should cover the vessel's 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 an agreement has been signed 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**

Sales made prior to commencement of acquisition for a project and sales while the projects are in progress, are presented as pre-funding revenues. 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 in a manner generally consistent with the physical progress on 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.

#### ***Late sales***

Customers are granted a license from EMGS 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.

#### ***Uplift***

Uplift revenues can occur if a customer that has already bought a license for EM data, is awarded acreage covered by the data bought.

#### **Balance sheet classification**

Current assets and short term liabilities consist of receivables and payables due within one year, and items related to the inventory cycle. Other balance sheet items are classified as fixed assets / long term liabilities.

Current assets are valued at the lower of cost and fair value. Short term liabilities are recognised at nominal value.

Fixed assets are valued at cost, less depreciation and impairment losses. Long term liabilities are recognised at nominal value.

#### **Subsidiaries**

Subsidiaries 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.

#### **Property, plant and equipment**

Property, plant and equipment is capitalised and depreciated linearly over the estimated useful life. Significant fixed assets which consist of substantial components with dissimilar economic life have been unbundled; depreciation of each component is based on the economic life of the component. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property, plant and equipment are added to the acquisition cost and depreciated with the related asset. If carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written

down to the recoverable amount. The recoverable amount is the greater of the net realisable value and value in use. In assessing value in use, the discounted estimated future cash flows from the asset are used.

### Research and development

Development costs are capitalised provided 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 direct project costs are capitalised.

A multi-client project is considered complete when all components or processes associated with the acquisition and processing of the data are finished, and all components of the data have been properly stored and made ready for delivery to customers.

The Company changed its principles for multi-client amortisation from 1 January 2016. After a project is completed, a straight-line amortisation is applied. The straight-line amortisation is assigned over the useful life, which is set at four years. The straight-line amortisation is distributed evenly through the financial year independently of sales during the quarters.

### 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.

### 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 23 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.

## 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 presented as other paid-in capital in the balance sheet. Provisions are made for the social security taxes related to the 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, where 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 and bank deposits.

## Note 1 – Operating revenues

Region	2017	2016
Europe, Middle East and Africa	271 003	155 595
North and South America	3 913	54 842
Asia and the Pacific Ocean	3 041	108 903
<b>Total</b>	<b>277 957</b>	<b>319 341</b>

Out of the 277 957 in total operating revenues in 2017, 11 263 was intercompany revenues (2016: 54 020).

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

## Note 2 – Shared revenue

The Company has since 2013 entered several cooperation agreements regarding EM multi-client surveys in the Barents Sea and Brazil.

EMGS has received funding and/or seismic data against a revenue share on prefunding, late sales and uplift revenues. EMGS has provided the vessel, performed the data acquisition and finally provided the data processing services. The acquired data remains the property of EMGS.

When EMGS licenses data to customers in areas subject to revenue sharing, the Company invoices and collects payments from the customers for the entire sales amount. The related accounts receivable is presented gross, while the portion due to the partner upon collection from the customer is presented as a short-term liability.

EMGS' share of the revenue from the sale of multi-client library with cooperation agreements in 2017 is 57 062 (2016: 93 292).

	EMGS' revenue share
<b>Multi-client survey</b>	
Brazil 2013	95%
Barents Sea 2013	70%
Barents Sea 2014	50%
Barents Sea 2015	50%
Barents Sea 2016	50%
Barents Sea 2017	50%

### Note 3 – Spare parts, fuel, anchors and batteries

Amounts in NOK 1 000	2017	2016
<b>Inventory type</b>		
Equipment, components and parts	34 888	38 901
Anchors and batteries	7 194	7 323
Fuel	5 491	6 675
<b>Total</b>	<b>47 573</b>	<b>52 899</b>

### Note 4 – Operating leases

Amounts in NOK 1 000	2017	2016
<b>Operating leases recognised as expense in the period</b>		
Charter hire	76 135	149 584
Office premises	8 501	10 339
<b>Total</b>	<b>84 636</b>	<b>159 923</b>

The Company has made a provision relating to the remaining charter period of the first charter agreement of the BOA Thalassa of 12 366 as of 31 December 2016, as the vessel was not expected to generate revenues during the remaining period of the charter. This provided amount was released into the P&L in Q1 2016 thereby reducing the Charter hire charge. A new charter agreement for the vessel Thalassa commenced 1 October 2017.

The costs for Q4 were charged to the P&L.

### Note 5 – Pensions

The Company is required to have an occupational pension plan in accordance with the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon"). The Company's pension arrangements fulfill the requirements of the law.

In 2016, the pension plan involved a contribution level of 7 % of Base Salary from 0 to 7.1 G and 25.1 % of Base Salary from 7.1 up to 12 G, where G is the base amount (Folketrygdens grunnbeløp). In January 2017, EMGS changed the contribution level to 5% of Base Salary from 0 to 7.1 G and 15% of Base Salary from 7.1 G up to 12 G where G equals to NOK 93 634 as of 31 December 2017.

The Company's contribution to the Norwegian defined contribution plan for the year ended 31 December 2017 is 5 462.

As of 31 December 2017, there are 77 employees covered by the defined contribution pension plan (2016: 91).

## Note 6 – Remuneration

The average number of employees during 2017 was 105.

Amounts in NOK 1 000	2017	2016
<b>Employee expenses:</b>		
Salaries	111 147	155 972
Payroll tax	12 032	18 677
Pension costs	5 475	7 289
Other payments	5 661	11 279
<b>Total</b>	<b>134 314</b>	<b>193 216</b>

### Executive Management remuneration

Amounts in NOK 1 000	Salaries	Bonus	Share options *	Pension benefit	Other benefits**	Total remuneration
<b>Executive Management</b>						
Christiaan Vermeijden, CEO	2017	3 257	0	700	89	13 4 060
Hege Veiseth, CFO	2017	1 739	0	15	88	13 1 855
David Neser, COO	01.01 - 14.02	1 140	3 000	-417	21	997 4 742
<b>Total</b>		<b>6 136</b>	<b>3 000</b>	<b>297</b>	<b>199</b>	<b>1 023 10 656</b>

\*Share options costs are posted as an expense under the Company's option program in 2017.

\*\*Other benefits include housing allowance, school fees, electronic communication and group life insurance.

### Remuneration Policy

All members of the Executive Management Group 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's goals and the individual goals. The Executive Management 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
<b>Board of Directors</b>	
Eystein Eriksrud	Executive Director and Chairman of the Board 01.01 - 31.12 0
Petteri Soininen	Non-executive Director 01.01 - 31.12 0
Johan Kr. Mikkelsen	Non-executive Director 01.01 - 31.12 0
Anne Øian	Non-executive Director 01.01 - 31.12 411
Mimi Berdal	Non-executive Director 01.01 - 31.12 378
Christel Brønstad	Employee's representative 01.01 - 25.04 0
Adam Robinson	Employee's representative 01.01 - 31.12 0
Marte Vist Karlsen	Employee's representative 26.04 - 31.12 0
	<b>789</b>

The amounts listed under Directors fee include fees for board committee work and have been expensed and paid in 2017.

The employee's representatives are not paid directors fee and their remuneration as employees have not been included in the table above.

## Share base payment

The Company has an option program (more details about the program is presented in note 15 for the Group).

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

Amounts in NOK 1 000	Number of options OB	Forfeited options	Excercised options	Number of options CB	Excercise price B	Weighted average	Weighted average remaining contractual life
<b>Executive Management</b>							
Christiaan Vermeijden	250 000	0	0	250 000	10.00	3.91	
Hege Veiseth	2 000	-125	0	1 875	454.13	2.52	
David Neser	15 625	-15 625	0	0	0	0	
<b>Board of Directors</b>							
Christel Brønstad	200	-200	0	0	0	0	
Adam Robinson	3 175	0	0	3 175	416.48	2.40	
Marte Vist Karlsen	1 875	0	0	1 875	413.33	1.70	

B – average exercise price for number of options by 31 December 2017.

## Loans and guarantees

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

## Auditor expense

Amounts in NOK 1 000	2017	2016
<b>Auditor expenses</b>		
Statutory audit services (excl VAT)	1 080	1 129
Tax advisory services (excl VAT)	431	873
Further assurance services (excl VAT)	203	337
Other non-audit services (excl VAT)	0	19
<b>Total</b>	<b>1 714</b>	<b>2 358</b>

## Note 7 – Tangible and intangible assets

Amounts in NOK 1 000	Property, plant and equipment	Patents	Software licenses etc.	Multi-client library	Total	Assets under construction
Acquisition cost at 1 January 2017	924 650	26 416	85 205	595 073	1 631 344	189 021
Purchases	194 370	0	2 816	34 510	231 696	24 814
Disposals	0	0	0	0	0	-195 987
Impairment						320
<b>Acquisition cost at 31 December 2017</b>	<b>1 119 020</b>	<b>26 416</b>	<b>88 021</b>	<b>629 583</b>	<b>1 863 040</b>	<b>18 168</b>
Accumulated depreciation 1 January 2017	838 195	19 566	75 674	482 363	1 415 798	0
Depreciation/amortisation for the year	31 991	761	7 703	56 840	97 295	0
Disposals	0	0	0	0	0	0
Impairment	0	0	0	7 123	7 123	0
<b>Accumulated depreciation 31 December 2017</b>	<b>870 186</b>	<b>20 327</b>	<b>83 377</b>	<b>546 326</b>	<b>1 520 215</b>	<b>0</b>
<b>Net carrying value</b>	<b>248 835</b>	<b>6 089</b>	<b>4 644</b>	<b>83 257</b>	<b>342 825</b>	<b>18 168</b>
Depreciation rate (%)	13-33	7-10	33			

Depreciation/amortisation of fixed assets is calculated using the straight-line method.

The registered patents rights relate to electromagnetic surveys (EM).

Assets under construction are internal capital expenditure projects that are not completed. These projects are mainly development and production of acquisition equipment, but also interpretation and modelling software.

Addition of assets under constructions in 2017 amounted to 24 814 (2016: 96 313).

### Finance leases

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 5 years and the asset will be depreciated over a 3-5-year period.

The terms of the agreements are 3 months NIBOR +3.65% and 5.36%.

Amounts in NOK 1 000	2017	2016
Capitalised in the balance sheet 31 December	11 547	11 547
Accumulated depreciation	-8 540	-4 690
<b>Net carrying value</b>	<b>3 007</b>	<b>6 857</b>
Depreciation	3 849	2 887

Amounts in NOK 1 000	2017	2016		
	Nominal value	Present value	Nominal value	Present value
Leases due within 12 months	2 572	2 348	2 576	2 100
Leases due within the next 13-60 months	4 033	3 864	6 610	6 200
<b>Remaining debt on leasing contracts 31 December</b>	<b>6 605</b>	<b>6 212</b>	<b>9 186</b>	<b>8 300</b>

Amounts in NOK 1 000	2017	2016
<b>Specification of R&amp;D expenses</b>		
External expenses	-95	492
Materials	1 622	317
Internal hours	6 725	2 655
<b>Total R&amp;D expenses</b>	<b>8 252</b>	<b>3 464</b>

## Note 8 – Income taxes

Amounts in NOK 1 000	2017	2016
<b>Tax base specification</b>		
Profit before tax	-165 645	-447 035
Permanent differences	24 263	202 587
Changes in temporary differences	-67 084	35 372
Tax expense abroad, paid	0	0
<b>Taxable profit (this year tax base)</b>	<b>-208 466</b>	<b>-209 076</b>
Tax losses carried forward	208 466	209 076
<b>Taxable profit (this year tax base)</b>	<b>0</b>	<b>0</b>
 <b>Income tax expenses:</b>		
Non-creditable foreign income taxes	6 837	0
<b>Total income tax expense</b>	<b>6 837</b>	<b>0</b>
 <b>Temporary differences</b>		
Fixed assets	-86 066	-138 603
Accounts receivable	0	0
Inventory	- 930	-8 810
Provisions tax liability abroad	-16 436	-10 737
Other accruals	0	-12 366
Tax losses carried forward	-1 257 428	-1 048 962
<b>Total temporary differences</b>	<b>-1 360 860</b>	<b>-1 219 478</b>
 <b>Non-recognised deferred tax asset</b>	<b>-312 998</b>	<b>-292 675</b>

### Non-recognised deferred tax asset

Amounts in NOK 1 000	Tax base	24% tax
<b>Explanation why the tax is not 24% of income before tax</b>		
24% tax of income before tax	-165 645	-39 755
Permanent difference		5 823
Change in deferred tax assets, not recognised		20 323
Effect of change in tax rate		13 609
Non-creditable foreign income taxes		0
<b>Calculated tax</b>		<b>0</b>
<b>Effective tax rate in %</b>		<b>0 %</b>

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 2017 or 31 December 2016.

Amounts in NOK 1 000	2017	2016
<b>Pledged assets:</b>		
Trade receivables	26 297	22 285
Cash and cash equivalents	0	5
Assets held under finance leases	3 007	6 857
<b>Total carrying value of pledged assets</b>	<b>29 304</b>	<b>29 147</b>

## Note 10 – Investment in subsidiaries

Amounts in NOK 1 000	Share ownership/ Voting rights	Net carrying value shares		Equity 31 December 2017	Location
		in subsidiaries	Profit/Loss 2017		
Sea Bed Logging - Data Storage Company AS	100 %	120	548	-6 763	Trondheim, Norway
emgs Americas 1 AS	100 %	120	-69 567	-74 721	Trondheim, Norway
CSEM Production AS	100 %	120	- 11	- 72	Trondheim, Norway
EM Multi-client AS	100 %	30	-18 613	-258 653	Trondheim, Norway
EMGS Global AS	100 %	117	176	9 589	Trondheim, Norway
EMGS Shipping Mexico S. de R.L de C.V.	99 %	68	-31 047	-6 355	Col. Del Valle, Mexico
EMGS Sea Bed Logging Mexico S.A. de C.V.	100 %	24	26 193	-67 912	Col. Del Valle, Mexico
Servicos Geologicos Electromagneticos Do Brazil LTD	99 %	0	-6 468	-87 356	Rio de Janeiro, Brazil
EMGS Surveys AS	100 %	0	- 88	31 167	Trondheim, Norway
Electromagnetic Geoservices Malaysia Sdn Bhd	1 %	0	-3 660	9 167	Kuala Lumpur, Malaysia
emgs Asia Pacific Sdn Bhd	100 %	840	-4 266	10 012	Kuala Lumpur, Malaysia
EMGS Labuan Ltd	100 %	0	- 686	7 800	Labuan, Malaysia
EMGS Asia Pacific Labuan Ltd	100 %	0	2 777	- 430	Labuan, Malaysia
emgs Australia Pty Ltd	100 %	0	- 23	909	Perth, Australia
<b>Total</b>		<b>1 438</b>	<b>-104 735</b>	<b>-433 618</b>	

## Note 11 – On-going projects

Part of trade receivables that are recognized in 2017, but not invoiced per 31 December 2017 amounts to 680 (2016: 1 452).

Deferred revenue as of 31 December 2017 amounts to 6 104 (2016: 1 297).

The Company does not expect any loss on contracts in 2017.

## Note 12 – Receivables

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

There has not been made any provision for loss on external receivables per 31 December 2017 (2016: 0).

## Note 13 – Bank deposits

Restricted cash as of 31 December 2017:

Amounts in NOK 1 000	2017	2016
Guarantees	17 254	5
Employee tax	7 719	11 024
<b>Total restricted cash</b>	<b>24 973</b>	<b>11 029</b>

## Note 14 – Share capital and Shareholder information

In 2016, the Company's shares were consolidated so that 40 shares, each having a par value of NOK 0.25, were consolidated into one share, having a par value of NOK 10.00.

In 2017, the Company's shares 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.

The Company completed a rights issue in 2017. The rights issue resulted in gross proceeds to the Company of NOK 144 million (USD 17.7 million) through an issuance of 58 634 735 shares.

The total authorised number of ordinary shares is 98 831 473 (2016: 38 184 437) with a par value of USD 0.12 (NOK 1) per share. All issued shares are denominated in NOK and fully paid.

### The largest shareholders as of 31 December 2017:

	Number of ordinary shares	Percentage
Siem Investments Inc.	21 869 450	23.92%
Perestroika AS	20 560 847	22.49%
Morgan Stanley & Co. LLC	18 074 938	19.77%
Bækkelaget Holding AS	3 010 000	3.29%
Sportsmagasinet AS	2 575 001	2.82%
Rosenfonn Investering AS	1 500 000	1.64%
Kristian Falnes AS	1 050 000	1.15%
NHO - P665AK	902 932	0.99%
Nordnet Livsforsikring AS	759 919	0.83%
DNB Navigator (II)	711 279	0.78%
Statoil Pensjon	701 458	0.77%
Rygg, Jan Wiggo	403 234	0.44%
Haav Holding AS	400 000	0.44%
Jackwitz, Svein-Erik	381 832	0.42%
Galtung, Lars Otto	350 000	0.38%
Nordnet Bank AB	341 081	0.37%
J&J Investment AS	340 000	0.37%
Øverland, Jarle	340 000	0.37%
Rage, Per Egil	300 000	0.33%
Falnes, Olav Kristian	300 000	0.33%
Other	16 556 903	18.11%
<b>Total</b>	<b>91 428 874</b>	<b>100.00%</b>

	Shares
<b>Leading representatives of the Company as of 31 December 2017 hold the following shares:</b>	
CEO	0
CFO	1 642
Chairman of the Board, Eystein Eriksrud (Laburnum AS)	178 013
Board member, Mimi Berdal (MKB Invest AS)	41 819
<b>Total</b>	<b>221 474</b>

## Note 15 – Equity

Amounts in NOK 1 000	Share capital	Share premium	Other paid-in capital	Available-for-sale reserve	Actuarial gains/(losses)	Other equity (uncovered loss)	Total
At 31 December 2016	327 941	886 687	107 510	2 050	13 377	-751 314	586 251
Group contribution not recorded in 20:	0	0	0	0	0	7 945	7 945
<b>At 1 January 2017</b>	<b>327 941</b>	<b>886 687</b>	<b>107 510</b>	<b>2 050</b>	<b>13 377</b>	<b>- 743 369</b>	<b>594 196</b>
Share capital reduction	- 295 147	0	295 147	0	0	0	0
Proceeds from shares issued	143 655	0	0	0	0	0	143 655
Costs of shares issued	0	0	-2 337	0	0	0	-2 337
Share-based payment	0	0	419	0	0	0	419
Loss of the year	0	0	0	0	0	-172 481	-172 481
<b>At 31 December 2017</b>	<b>176 449</b>	<b>886 687</b>	<b>400 739</b>	<b>2 050</b>	<b>13 377</b>	<b>- 915 850</b>	<b>563 152</b>

## Note 16 – Financial items

Amounts in NOK 1 000	2017	2016
<b>Financial income:</b>		
Dividend from emgs Sea Bed Logging Mexico	0	35 706
Interest income subsidiaries	31	12 871
Interest income on short term bank deposits	924	812
Foreign exchange gains	10 028	6 736
Net gain on financial assets and liabilities	7 076	9 662
Gain on partial bond buy-back	7 177	0
<b>Total financial income</b>	<b>25 237</b>	<b>65 788</b>
<b>Financial expenses:</b>		
Interest expense subsidiaries	492	1 829
Interest expense	32 453	21 612
Foreign exchange loss	42 137	20 081
Net loss on financial assets and liabilities	30 133	201 173
Reclassification of accumulated loss on available-for-sale financial asset	0	42 859
Other financial expenses	1 381	7 597
<b>Total financial expenses</b>	<b>106 596</b>	<b>295 151</b>
<b>Net financial items</b>	<b>-81 359</b>	<b>-229 364</b>

## Note 17 – Financial liabilities

### NOK 246 million bond

On 26 June 2013, EMGS secured a NOK 350 million bond bearing an interest at 3 months NIBOR + 6.00% p.a. On 22 December 2015, EMGS bought back NOK 80 million nominal outstanding amount at 80% of par. Following settlement, the nominal outstanding amount of the bond was NOK 270 million. In March 2017, 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 nominal amount of NOK 24 million was bought back, and the nominal amount outstanding decreased to NOK 246 million.

The bond is unsecured.

### 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.

### Forward rate agreement

In February 2015, EMGS entered into a forward rate agreement with the purpose of reducing its exposure to exchange rate fluctuations related to the NOK 350 million bond loan against USD. In June 2016, the forward contract was amended by a new contract. The NOK amount was reduced to NOK 270 million and the settlement date was postponed to 27 June 2019. The negative market value related to the NOK 270 million was continued in the amended contract, while the negative market value of the difference between NOK 350 million and NOK 270 million was paid in 2016. The Company will transfer a collateral if the negative market value of the contract exceeds USD 4 million. Until end of 2017, the threshold of USD 4 million was gradually reduced to 0 for the remaining period of the contract.

The Company paid the negative market value of the difference between NOK 270 million and NOK 246 million when NOK 24 million of the bond was bought back in 2017.

The forward rate agreement is not treated as hedge, as the agreement is not specifically designated as hedge of firm commitments or certain cash flow. Consequently, the forward rate agreement is recorded at estimated fair value with gains and losses included in the line Net gains/(losses) of financial assets and liabilities in the Consolidated income statement.

Amounts in NOK 1 000	Interest rate	Maturity	2017	2016
<b>Non-current</b>				
NOK 246 million bond	3 month NIBOR +6.00%	27/6/2019	245 674	267 095
Financial lease liabilities	3 month NIBOR +3.65% and 5.36%	2-3 years	3 864	6 201
Forward rate agreement		27/6/2019	24 668	40 360
<b>Total</b>			<b>274 206</b>	<b>313 656</b>
<b>Current</b>				
Financial lease liabilities	3 month NIBOR +3.65% and 5.36%	Up to 1 year	2 348	2 100
<b>Total</b>			<b>2 348</b>	<b>2 100</b>
<b>Total financial liabilities</b>			<b>276 554</b>	<b>315 756</b>

## Note 18 – Other receivables

Amounts in NOK 1 000	2017	2016
<b>Other receivables</b>		
Prepaid expenses	10 849	8 998
VAT	0	2 568
Other	8 991	11 863
<b>Total</b>	<b>19 840</b>	<b>23 429</b>

## Note 19 – Provisions

The Company recognises a provision for prepayments from two customers in a Joint Industry Project (“the JIP”). EMGS and the two customers collaborated on the development, construction, and testing of a prototype advanced marine electromagnetic acquisition system. The prototype completed in 2017 and the provision is being released to revenue over 8 years, the same period as the prototype is being depreciated over. The Company has recognised 170 340 as provision for JIP prepayments per 31 December 2017 (2016: 165 472).

## Note 20 – Public taxes and duties payable

Amounts in NOK 1 000	2017	2016
<b>Public taxes and duties payable</b>		
Employee taxes withheld	7 798	11 030
Employment tax	3 958	5 029
Tax foreign employees	807	202
VAT	590	0
Other	616	176
<b>Total</b>	<b>13 769</b>	<b>16 437</b>

## Note 21 – Other current liabilities

Amounts in NOK 1 000	2017	2016
<b>Other current liabilities</b>		
Provision for onerous contract	0	12 366
Accrued holiday pay	8 531	10 749
Accrued salaries	1 548	1 842
Deferred revenues	6 104	1 297
Accrued vessel expenses	8 455	7 730
Other liabilities	5 730	7 416
<b>Total</b>	<b>30 368</b>	<b>41 400</b>

Provision for onerous contract in 2016 relates to accrual of vessel expenses for the remaining charter period of Boa Thalassa.

## Note 22 – Other operating expenses

Amounts in NOK 1 000	2017	2016
<b>Other operating expenses</b>		
Rental and housing expenses	10 339	12 918
Consumables and maintenance	6 278	10 136
Consultancy fee	10 225	15 840
Travel expenses	2 123	4 697
Insurance	3 397	5 549
Marketing	944	1 050
Intercompany expenses	11 902	25 817
Other operating expenses	4 493	12 876
<b>Total</b>	<b>49 700</b>	<b>88 884</b>

## Note 23 – Related parties

Sales and purchases of services, receivable and liabilities:

Amounts in NOK 1 000	2017				2016			
	Liabilities	Receivables	Purchase	Sales	Liabilities	Receivables	Purchase	Sales
<b>Related parties</b>								
Sea Bed Logging - Data Storage Company AS	0	0	0	0	0	16 089	0	10 953
emgs Americas 1 AS	0	87 475	0	4 202	0	100 702	0	0
CSEM Production AS	0	0	0	0	0	48	0	0
EM Multi-client AS	0	99 746	0	0	0	106 959	0	4 681
emgs Global AS	2 029	0	0	3 308	0	24 544	0	0
emgs Americas 1 AS Mexican Branch	0	0	0	0	0	13	0	0
emgs Americas Inc	0	800	16 513	0	0	3 964	39 461	0
EMGS Shipping Mexico S. de R.L de C.V.	0	52 667	0	0	0	61 390	0	0
EMGS Sea Bed Logging Mexico S.A. de C.V.	0	0	0	0	0	0	0	2 115
EMGS Services Mexico S.A de C.V.	597	0	124	0	496	0	458	0
Electromagnetic Geoservices Canada Inc	0	0	0	3 751	0	31 283	0	0
Servicos Geologicos Electromag. Do Brazil LTD	0	301 384	0	0	0	322 075	0	0
EMGS Surveys AS	0	58	0	0	0	58	0	0
EMGS UK Ltd	27 418	0	7 739	0	27 122	0	12 324	0
Electromagnetic Geoservices Malaysia Sdn Bhd	1 715	0	1 715	0	0	9 540	0	0
emgs Asia Pacific Sdn Bhd	10 084	0	4 292	0	28 878	0	14 401	4 368
emgs Labuan Ltd	0	0	0	0	0	16 309	0	31 903
EMGS AP Labuan Ltd	158	0	0	0	0	1 680	0	0
	<b>42 000</b>	<b>542 130</b>	<b>30 382</b>	<b>11 262</b>	<b>56 496</b>	<b>694 654</b>	<b>66 644</b>	<b>54 020</b>

In 2017, the Company made an accrual for loss on group company receivables of 30 133 (2016: 146 420)

## Note 24 – Events after the reporting period

### Financing

On 2 March 2018, the Company announced a proposed comprehensive refinancing (the “Comprehensive Refinancing”). The Comprehensive Refinancing consists of two elements; (i) a rights issue with gross proceeds of up to USD 12.5 million, whereof USD 10.0 million is underwritten (the “Rights Issue”); and (ii) issuance of a new, fully underwritten convertible bond loan with a total nominal amount of up to USD 32.5 million (the “Bond Issue”).

The rights issue will provide the Company with financing for general corporate purposes

The net proceeds from the Bond Issue will be used to refinance the Company’s existing bond issue. The proposed terms of the Bond Issue include a reduction of the free cash covenant (USD 2.5 million compared with USD 10 million under current bond loan), denomination in USD (new interest rate based on 3M USD LIBOR plus a margin of 5.5 per cent, compared with 3M NIBOR plus a margin of 6.0 per cent under current bond loan), an extension of the maturity (2023 compared with 2019 under current bond loan) and a conversion price equal to 135% of the subscription price in the Rights Issue.

The Comprehensive Refinancing will provide the Company with a significantly improved financial runway, stability and flexibility.

On 8 March 2018, EMGS entered into a USD 4.0 million short term loan agreement with Siem Investments Inc to improve the free cash position and ensure compliance with the minimum liquidity covenant in the Company’s existing bond loan. Siem Investments Inc will receive interest of 3 months USD LIBOR plus 6.0% per annum. At the date of this Annual Report, no drawdown has been made by the Company under the loan. Siem Investments Inc is a shareholder in the Company, and represented at the board of directors.

### Provision for indemnity liability

Under an indemnity obligation, EMGS carries certain financial exposure related to a dispute involving one of its suppliers. Based on certain recent developments and advice received by EMGS from its legal advisors, a provision in the amount of USD 750,000 has been made for this exposure. This figure consists of EMGS' best estimate of its principal exposure, plus its expenses and legal fees related to handling the matter and protecting EMGS' interests.

## INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Electromagnetic Geoservices ASA

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Electromagnetic Geoservices ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the statements of income and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the statement of financial position as at 31 December 2017, the statements of other comprehensive income, income statement, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- ▶ the financial statements are prepared in accordance with the law and regulations;
- ▶ the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- ▶ the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

#### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

## Impairment evaluation of Multiclient libraries

Multi-client library accounts for 16 % of total assets of the Group and 7 % of the Parent company. The Company performs impairment reviews and determines the value in use. The Company estimated value in use using estimated future sales forecasts. The forecasts are based on budgets and assumptions about future market demand and spending on exploration and production by oil companies, including licensing activities. The forecasts require judgment from management about the future market conditions. Impairment of multi-client data libraries is a key audit matter based on the current market conditions and the significant judgement involved. After impairment of USD 3.6 million for the Group and NOK 7.1 million for the Parent company in 2017, the book value of the multi-client library is USD 16.3 million for the Group and NOK 83.3 million for the Parent company at 31 December 2017.

We evaluated management's assessment of impairment indicators and management's estimates related to sales forecast. Our audit procedures included inquiries and evaluations of management's assumptions regarding the current market situation and expectations about future oil prices, licensing rounds, and exploration activities. Furthermore, we evaluated the valuation methodology, amortisation policy and the discount rate applied, and tested the mathematical accuracy of the value in use calculation. Our audit procedures also included analysis and evaluation of historical accuracy of prior years' forecasts. We assessed the Company's disclosures regarding assumptions and recognized impairment losses of multi-client data libraries disclosed in notes 4 – "Significant accounting estimates, judgments and assumptions" and 16 – "Intangible assets and goodwill" of the consolidated financial statements.

## Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management for the financial statements

Management is 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 International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit 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 Company's internal control
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on other legal and regulatory requirements**

### **Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility**

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



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### 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 management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 9 March 2018

ERNST & YOUNG AS

Finn Ole Edstrøm

State Authorised Public Accountant (Norway)