



Science behind the image

## PRESS RELEASE

17 October 2006

### Offshore Hydrocarbon Mapping Plc ('OHM' or 'the Company') Preliminary Results for the Year ended 31 August 2006

- Turnover doubled to £10.4 million
- Operating profit trebled to £2.9 million
- Losses halved to £1.8 million
- Cash balance of £3.4 million
- Record order book
- Earnings per share (5.94)p 2005 (12.77)p

Dr. Pierre Jungels said :

"I am delighted to report that your Company has made enormous strides in the last twelve months.

We have taken the application of the Controlled Source ElectroMagnetic imaging technology much further than considered possible just 18 months ago, applying it effectively over prospects located in shallow water situations and surveying successfully in areas of increasingly complex geology.

We have also conducted surveys in new areas for new clients. Crucially, in terms of industry acceptance of the technology, we are undertaking work and receiving enquiries for the whole range of upstream explorers, from the supermajors, through majors, to large, mid-sized and junior E&P companies.

Our offering has been widened and deepened through our continuing Research & Development and real life operational experience.

Since our first commercial survey we have tracked the pre-drill expectations from CSEM with actual outcomes. Drilling results have been consistent with our prognosis in every case."

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## **Preliminary Results for the Year ended 31 August 2006**

### **Chairman's Statement**

I am delighted to report that your Company has made enormous strides in the last twelve months.

We have taken the application of the Controlled Source ElectroMagnetic imaging technology much further than considered possible just 18 months ago, applying it effectively over prospects located in shallow water situations and surveying successfully in areas of increasingly complex geology.

We have also conducted surveys in new areas for new clients. Crucially, in terms of industry acceptance of the technology, we are undertaking work and receiving enquiries for the whole range of upstream explorers, from the supermajors, through majors, to large, mid-sized and junior E&P companies.

We have made great progress in enhancing the integrity of the images of the earth provided not only through CSEM but through the combination of CSEM with seismic data, well logs, and other geophysical remote sensing data to provide our clients with the very best pre-drill information possible. We believe that in the future, this combination of technologies will lead to deeper understanding of reservoir management and residual hydrocarbon recovery, an area where a lot of effort will be expended by our clients. Future increases of proven reserves will come as much from those efforts as from wildcat exploration.

Access to exploration acreage has become increasingly difficult and expensive. Recent offshore acreage licensing rounds have seen bids approaching a billion dollars in Angola, Nigeria and Sao Tome, whilst in the Gulf of Mexico the most recent sale saw the highest level of bids in eight years. In countries such as Libya and Algeria the winners of acreage on offer have agreed to very tough Production Sharing terms. International activity by state oil companies, made cash rich by production revenues brought about by the higher oil price, and with mandates to secure reserves to meet the strategic growth demands of their host country has further increased competition for exploration acreage.

At the same time, demand for services from seismic boats to drilling rigs and equipment, to supply boats and engineering and construction resources are at an all time high, with shortages of capacity and people everywhere. This leads to cost inflation, in particular in offshore exploration, where today's work programmes can cost up to three times the costs of two years ago when OHM was floated.

This environment of escalating costs makes it ever more important for explorers to de-risk their prospects before bidding on acreage and before drilling exploration wells. A dry hole is now more expensive than ever and hard to explain when technologies exist to significantly reduce the chance of failure. One of the main purposes of CSEM is to de-risk exploration prospects and enable explorers to make more effective high-value exploration decisions. In other words, to drill fewer dry holes.

Technology leaders in the exploration industry recognise the potential of CSEM to dramatically improve exploration success. One of the industries leading technical bodies, the Society of Exploration Geophysicists published a number of technical papers and case studies in its August journal commending the technique demonstrating that major international oil companies now accept and publicly state that "CSEM methods combined with seismic are starting to show a real impact in reducing uncertainty or risk".

Since our first commercial survey we have tracked the pre-drill expectations from CSEM with actual outcomes. Drilling results have been consistent with our prognosis in every case. This of course does not take account of the wells that have not been drilled because CSEM suggested it would be a waste of money.

In real terms, the impact of CSEM surveys on undrilled acreage is in multiplying the rate of success and increasing substantially the Expected Monetary Value of the exploration programmes. No wonder then, that we are seeing a real acceleration of the adoption of the technology offered by OHM.

Looking to the future, we have moved on technically and commercially, from the dispute between the University of Southampton and Statoil over a patent we had under licence from the University. Our offering has been widened and deepened through our continuing Research & Development and real life operational experience. We are planning for an additional offshore crew to meet growing demand and our order book indicates that we have a very busy year ahead.

Landon Clay, one of our longest serving non-executive directors has notified the company of his desire to retire from the Board. Through East Hill Management Company, LLC, Landon was an early investor and supporter of OHM and I

would like to thank him for his contribution and service. Jeffrey Garner, who has worked closely with Landon for many years has been invited to join the Board as a non-executive director. He will stand for formal election at the Company's forthcoming AGM.

The skills and know how of the executive team and employees of your Company give me comfort that next year should see real and accelerating consolidation. I thank them all on your behalf for all their efforts.

**Dr. Pierre Jungels CBE**  
Chairman

## **Chief Executive's Review**

### **Introduction**

Offshore Hydrocarbon Mapping plc uses specialist remote sensing information to help our clients to understand the subsurface of the earth. Our principal activities are focused on providing information on the nature of electrically resistive bodies in the subsurface as an aid to oil and gas exploration and development. The Company was founded in 2002 and was floated on the AiM market of the London Stock Exchange in 2004.

### **Science behind the image**

Offshore Hydrocarbon Mapping's unique capability is to use the Controlled Source ElectroMagnetic (CSEM) surveying technique, often in combination with other geophysical remote sensing techniques, to provide meaningful images of the structure of the earth which can be used in the search for and production of hydrocarbons.

In its simplest embodiment, CSEM can be used to detect anomalous responses associated with resistive bodies in the earth. Complex processing and analysis of these simple field responses is required to provide detailed images of the subsurface to discriminate between signals related to commercial hydrocarbon deposits and those from other geologic or topographic features of the subsurface. By using its unique techniques and software to identify resistive bodies in the earth that correlate in depth and extent to suspected hydrocarbon plays, and have resistivity values consistent with hydrocarbon saturated sediments, OHM are able to significantly reduce the risk of their clients drilling non-commercial wells.

### **Operating activity in 2006**

With increasing adoption of CSEM as a valuable tool for hydrocarbon exploration the Company has undertaken a wide range of work in 2006. Our crews have operated in areas from Northern Norway to the Falkland Islands and from the West of Africa to the East of Malaysia. We have conducted operations in water depths ranging from 70 to over 3,000 metres and have worked through the operational challenges of tropical heat and South Atlantic storms.

Our CSEM equipment packages have been designed to be portable enabling us to cost effectively mobilise them to remote locations using commercial sea freight. Once they arrive in a port close to a client's work site, they are mobilised onto locally sourced vessels for the survey operations to be undertaken. Our skilled survey crews fly out to join these vessels and execute the surveys. As the year has progressed, sourcing of suitable vessels has become more challenging due to high levels of demand prevailing in the offshore oil service markets. Our operations management team have done an outstanding job of sourcing vessels in such competitive circumstances and have been extremely inventive in finding suitable tonnage in other industries.

Surveys are undertaken using OHM's proprietary electromagnetic transmitters (DASI systems – now on their fourth generation) and proprietary electromagnetic signal recorders (EFMALS – now on their third generation). Engineering development on improving these systems is ongoing with a focus on increasing reliability and reducing the requirements for field maintenance.

Our data processing groups in Houston and Aberdeen have been extremely busy working on data acquired by our own field crews as well as applying OHM's ever advancing processing and analysis techniques on a contract basis to clients who wish to enhance data acquired on earlier contracts or by other contractors.

Significant effort has been put into recruiting and training new personnel for our operations and processing groups and this work is ongoing. We have specialist programs designed to recruit graduates into our business and a strong focus on recruiting experienced engineers from outwith the offshore industry. Experienced members of OHM's staff have been given responsibility for training new recruits and for fast tracking them into our operations. A key part of this training is not just showing them how to work, but showing them how to work safely and a considerable effort is spent in fostering safety awareness among our new recruits and reinforcing it in our existing staff.

### **Safety and the environment**

The Company conducts operations offshore often in hostile and remote conditions. In order to control the risks associated with this activity, the Company has developed a comprehensive safety and environmental management system. This system is frequently reviewed and updated for new circumstances and to capture increasing experience and emerging best practice. Ownership of the system lies not just with the Company and its management but with the personnel operating "at the coalface" whose experience and knowledge are vitally important in the development and maintenance of safe working regimes.

It is a testament to the dedication of all that we have, for the fifth successive year, achieved our goal of conducting our operations without significant injury, lost time incidents, or accidental damage to our environment.

## **Research and Development**

OHM's industry leading capabilities are driven by the Company's efforts in research and development. In Dr. Lucy MacGregor and her team we have assembled a group of the leading researchers in our field. Their outstanding work in solving shallow water application problems has led to a number of commercial surveys on prospects in the North Sea, West Africa and the South Atlantic being successfully completed in fiscal year 2006.

In 2006 a number of new researchers joined the team and a second research cluster was opened up at the Company's office in Houston, Texas. Significant improvements were made in workflow management, streamlining the processes of data management, data processing and interpretation. Considerable progress was made in the coding of many of our processing algorithms allowing for more efficient use of computer time and faster turnaround of results to clients. Major advances in our processing software have allowed us to solve more complex processing problems and to improve the resolution of our images.

Robust routines for co-rendering CSEM images with seismic data have generated a new range of products which allow our clients to view CSEM images as part of an integrated data set on their in-house workstations and to manipulate the data in ways familiar to them in their work with seismic results. This has proved extremely popular with our clients and has become one of our standard methods of delivering data.

In June we announced a co-operation with Rock Solid Images, a provider of leading edge technologies for reservoir characterisation. This co-operation aims to develop quantitative measurement of rock and fluid properties of the earth through the integration of CSEM measurements with surface seismic and well logging data. Such successful integration will be a key enabler in the application of CSEM technology to reservoir monitoring and management. Results from our first case study which predicted gas saturation levels in a known North Sea reservoir have been well received by industry and, importantly, orders for fiscal year 2007 have been received.

In addition to the work completed at our in-house research and development groups, the Company participates in a number of research consortia with Universities including the University of Utah and Scripps Institution of Oceanography. The Company supports a number of PhD studentships researching into areas of future interest in the application and development of the Company's technology.

Past investment in research and development has clearly led to significant commercial breakthroughs and widens the Company's competitive advantage.

## **Intellectual Property**

Much attention has been focused in the past on intellectual property issues relating to the use of Controlled Source ElectroMagnetic (CSEM) technology. During fiscal 2006, the Company lost the use of a patent licensed from the University of Southampton covering particular applications of the CSEM technique. However, despite this loss OHM has grown its revenues and its order book, and the Company is expanding its own proprietary portfolio of patents covering process improvements in the application of CSEM technology.

In October 2006 and after the fiscal year 2006 period end, the new owner of the patent launched a law suit in the UK High Court alleging infringement of the patent. Technological advances in the last year means that OHM does not rely on any aspects of this patent and the Company is confident that it is not infringing the patent and that the claim should have no impact on the Company's business.

## **Financial review**

The Company exhibited strong growth in the first half of fiscal year 2006 of £5.9 million versus £1.5 million in the previous half year. Demand levels remained high into the second half of the year and the Company achieved revenues of £4.5 million. This slight fall in revenue resulted from some of the Company's capacity being deployed on innovative multi-client work for the Company's data library in West Africa during the period and revenues and cash flows from this activity are expected to contribute to the Company's figures in fiscal year 2007. Tightness in the North Sea shipping market also affected the sourcing of a suitable vessel for our planned summer work programme.

Total revenues for 2006 were therefore £10.4 million; more than double the £4.3 million of the preceding year.

Gross profit from our operations grew three fold from just under one million pounds in 2005 to close to three million pounds in 2006 as revenues grew and margins improved from efficiency improvements.

The Company's overheads reduced from over £5.3 million to £4.4 million. This reduction reflects the expensing in 2005 of proof of concept surveys which confirmed our shallow water solution. Expenditure of this nature is unlikely to

recur as our activity levels have now grown to the extent that research field work can generally be undertaken in conjunction with commercial programs and accordingly without incurring such high expense levels. We continue to expense the costs of our research and development, although this process will have to be reviewed as part of our move towards compliance with IFRS accounting standards which may result in further decreases in overheads.

The Company's cash balance remains healthy at £3.4 million. This is slightly lower than the figure reported at the half year and reflects capital investment into the data library which we anticipate flowing back early in the first half of 2007.

In more than doubling our revenues and more than halving our loss, we have made clear headway towards achieving profitability.

The transition to International Financial Reporting Standards (IFRS) is underway and OHM will be adopting the reporting requirements for the year ending 31 August 2007. The main measurement differences between UK GAAP and IFRS for OHM will be in the recognition of intangible assets resulting from research and development and in reflecting the fair value of share options/awards expected to be exercised over the vesting period in the Company's profit and loss account. Further details on the impact on OHM of complying with IFRS will be reported in the Interim Report and Financial Statements for the six months to 28 February 2007.

### **Trading outlook**

Looking forward, our order book for fiscal year 2007 stands at a record level and enquiries and leads for work globally are increasing. Depending on the number of orders received, the Company may attain the activity levels to justify mobilising a third offshore crew. Initial sales enquiries and pre-commitment orders in respect of the Company's 2006 Norwegian data library programme are encouraging.

We will shortly open a data processing and marketing office in Singapore, enhancing our presence in the Australia/South East Asia region where we see the scope for significant expansion.

We are focused on maintaining the momentum gained in 2006 and in driving the Company towards profitability. We will continue to strive to enhance our technical capabilities through focused research and development and to improve operational efficiencies. Strong competition for vessels and skilled labour will present challenges in 2007. We have strategies in place to address these challenges and retain a clear vision of how our Company can create value for its shareholders, employees and clients.

### **Dave Pratt**

Chief Executive Officer

## Consolidated profit and loss account

	Note	2006 £	2005 £
<b>Turnover</b>	2	<b>10,422,162</b>	4,342,889
Cost of sales		<b>7,549,421</b>	3,384,318
<b>Gross profit</b>		<b>2,872,741</b>	958,571
Administrative expenses		<b>4,435,851</b>	5,344,324
<b>Group operating loss</b>	3	<b>(1,563,110)</b>	(4,385,753)
(Loss)/gain on disposal of fixed assets		<b>(300,911)</b>	276,838
<b>Loss on ordinary activities before interest and other income</b>		<b>(1,864,021)</b>	(4,108,915)
Interest receivable and similar income		<b>168,112</b>	319,971
<b>Loss on ordinary activities before taxation</b>		<b>(1,695,909)</b>	(3,788,944)
Taxation on loss on ordinary activities	6	<b>(88,101)</b>	–
<b>Loss on ordinary activities after taxation</b>	18	<b>(1,784,010)</b>	(3,788,944)
<b>(Loss)/Earnings per share</b>			
Basic	7	<b>(5.94)p</b>	(12.77)p
Diluted	7	<b>(5.94)p</b>	(12.77)p

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

## Consolidated Balance Sheet

	Note	2006 £	2005 £
<b>Fixed assets</b>			
Intangible assets	9	<b>899,135</b>	457,601
Tangible assets	10	<b>2,791,411</b>	4,177,069
		<b>3,690,546</b>	4,634,670
<b>Current assets</b>			
Stock	12	<b>151,861</b>	193,652
Debtors	13	<b>2,216,315</b>	1,112,460
Cash at bank and in hand	15	<b>3,438,964</b>	4,356,503
		<b>5,807,140</b>	5,662,615
<b>Creditors: amounts falling due within one year</b>	14	<b>2,559,450</b>	1,691,723
<b>Net current assets</b>		<b>3,247,690</b>	3,970,892
<b>Total assets less current liabilities</b>		<b>6,938,236</b>	8,605,562
<b>Capital and reserves</b>			
Called up share capital	17	<b>300,497</b>	300,497
Share premium account	18	<b>12,177,866</b>	12,177,866
Share based payments reserve	18	<b>116,684</b>	–
Profit and loss account	18	<b>(5,656,811)</b>	(3,872,801)
<b>Shareholders' funds</b>	19	<b>6,938,236</b>	8,605,562

The financial statements were approved by the directors and authorised for issue on 17 October 2006 and are signed on its behalf by:

**D C N Pratt**  
Director

**R I Auckland**  
Director

## Company Balance Sheet

	Note	2006 £	2005 £
<b>Fixed assets</b>			
Fixed assets investments	11	<b>534</b>	534
<b>Current assets</b>			
Debtors: due after more than one year	13	<b>12,577,082</b>	12,577,614
		<b>12,577,082</b>	12,577,614
<b>Creditors: amounts falling due within one year</b>	14	–	532
<b>Net current assets</b>		<b>12,577,082</b>	12,577,082
<b>Total assets less current liabilities</b>		<b>12,577,616</b>	12,577,616
<b>Capital and reserves</b>			
Called up share capital	17	<b>300,497</b>	300,497
Share premium account	18	<b>12,177,866</b>	12,177,866
Profit and loss account	18	<b>99,253</b>	99,253
<b>Shareholders' funds</b>	19	<b>12,577,616</b>	12,577,616

The financial statements were approved by the directors and authorised for issue on 17 October 2006 and are signed on its behalf by:

**D C N Pratt**  
Director

**R I Auckland**  
Director

## Cash Flow Statement

	Note	2006 £	2005 £
<b>Net cash inflow/(outflow) from operating activities</b>	23	<b>87,467</b>	(2,957,903)
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>187,585</b>	399,446
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>187,585</b>	399,446
<b>Taxation</b>			
Foreign tax paid		<b>(88,101)</b>	–
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets – patents		<b>(70,711)</b>	(99,539)
Payments to acquire multi client data library		<b>(406,143)</b>	(293,653)
Payments to acquire tangible fixed assets		<b>(708,760)</b>	(3,101,776)
Proceeds from sale of tangible fixed assets		<b>81,124</b>	380,054
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(1,104,490)</b>	(3,114,914)
<b>Cash outflow before financing</b>		<b>(917,539)</b>	(5,673,371)
<b>Financing</b>			
Share capital issued		–	74,651
Share issue refund/(expenses)		–	10,740
<b>Net cash inflow from financing</b>		–	85,391
<b>Decrease in cash</b>	24	<b>(917,539)</b>	(5,587,980)

Notes to the accounts

## **1 Accounting policies**

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The following principal accounting policies have been applied:

### **Basis of consolidation**

The consolidated financial statements incorporate the results of Offshore Hydrocarbon Mapping plc and its subsidiary undertakings as at 31 August 2006 using the acquisition method of accounting. The results of the subsidiary undertakings are included from the date of acquisition.

### **Turnover**

Turnover represents sales in respect of the provision of oil exploration services to external customers at invoiced amounts less value added tax or local taxes on sales. Turnover is recognised in line with the performance of these services, to the extent that the performance entitles the Group to receive consideration in line with the terms of the service contracts under which the Group operates. Included within turnover are amounts in respect of data modelling and data interpretation services provided to external customers. Turnover is recognised on these contracts in accordance with SSAP 9 "Stocks and long term contracts". The accounting policy is described in more detail below.

Reimbursable expenses billed to customers are included in turnover.

### **Depreciation**

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, except for assets in the course of construction, over their expected useful lives. It is calculated at the following rates:

Plant and machinery – 1 to 3 years straight line

Computer equipment – 33.3% to 50% straight line

Office equipment – 33.3% to 100% straight line

### **Impairment of fixed assets**

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

### **Patent costs**

Costs of obtaining patents are capitalised, and amortised over their useful life from the date they are awarded.

### **Multi client data library**

The cost of collecting and processing electromagnetic data for onward licensing to clients on a non-exclusive basis is capitalised and held in the balance sheet as an Intangible Asset.

The carrying cost of such data is held on an identified prospect basis with the costs being reduced as sales occur or, if insufficient sales are realised, amortised on a straight line basis over a period of three years starting in the first month of the next half year following completion of the data library product.

All sales of information from the library attract a cost based on regular review of operating margins.

### **Operating leases**

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

### **Stocks and long term contracts**

Stocks of spare parts and consumables are carried at the lower of cost or net realisable value.

Long-term contracts are assessed on a contract by contract basis and are reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Where the outcome of each long-term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is recognised in the profit and loss account as the difference between the reported turnover and related costs for that contract. As soon as a contract is expected to be loss making overall, all future contract losses are provided for in the period.

### **Employee share schemes**

When shares and share options are awarded to employees a charge is made to the profit and loss account based on the difference between the market value of the Company's shares at the date of grant and the option exercise price in accordance with UITF Abstract 17 (Revised 2003) "Employee Share Schemes". The credit entry for this charge is taken to the share based payment reserve and reported in the reconciliation of movements in shareholders' funds.

#### Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the year and the balance sheet translated into sterling at the rate of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings are taken to reserves.

#### Research and development

Expenditure on pure and applied research and on development is charged to the profit and loss account in the year in which it is incurred.

#### Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date with the exception that the recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

#### Pension costs

Contributions made by the Group to the personal pension plans of certain directors are charged to the profit and loss account in the period in which they are payable.

#### Financial instruments

The Group's principal financial instruments comprise short-term debtors, short-term creditors and short-term deposits used to finance the Group's operations and future growth. The Group has no borrowings. The Group has taken advantage of the exemption available under FRS 13 to specifically exclude short-term debtors and creditors from disclosure except in relation to currency risk.

The Group does not hold or issue derivative financial instruments for trading purposes.

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 15 of the financial statements.

## 2 Turnover, loss and net assets

The information in respect of turnover, loss before tax and net assets required to be disclosed by Statement of Standard Accounting Practice 25 "Segmental reporting" has not been provided as, in the opinion of the directors such disclosure would be seriously prejudicial to the interests of the Group.

Turnover is wholly attributable to the principal activity of the Group.

## 3 Operating loss

Operating loss is arrived at after charging/(crediting):

	2006 £	2005 £
Research and development	<b>400,794</b>	1,022,889
Depreciation of tangible fixed assets	<b>1,623,922</b>	1,311,682
Amortisation of intangible fixed assets	<b>100,571</b>	34,349
Operating lease rentals – property	<b>53,153</b>	53,101
– vessels, plant and equipment	<b>2,733,460</b>	1,586,946
Auditors' remuneration:		
Group – audit services	<b>20,500</b>	16,250
Group – non-audit services	<b>13,795</b>	15,657
Exchange differences	<b>95,821</b>	(45,938)

Included in the Group audit fee is an amount of £6,000 (2005: £6,000) in respect of the Company.

#### 4 Employees

Group staff costs (including directors) consist of:

	2006 £	2005 £
Wages and salaries	1,741,469	1,580,120
Social security costs	173,829	172,999
Other pension costs	23,543	16,740
	<b>1,938,841</b>	1,769,859

The average number of employees (including directors) during the year was as follows:

Group	2006 Number	2005 Number
Management	10	9
Scientists	14	11
Operations	14	17
	<b>38</b>	37

Company: The Company has no employees and has incurred no staff costs in the year (2005: £nil).

#### 5 Directors' remuneration

	2006 £	2005 £
Directors' emoluments	366,901	407,213
Company contributions to directors' personal pension schemes	19,343	16,740
Amounts paid to third parties in respect of directors' services	7,217	10,000
Compensation for loss of office	–	30,000
Gains on exercise of share options	–	596,503

The total amount payable to the highest paid director in respect of emoluments was £151,084 (2005: £150,922), and gains on exercise of share options £nil (2005: £596,503). Group pension contributions of £9,600 (2005: £9,600) were made to his personal pension plan during the year.

#### 6 Taxation on loss on ordinary activities

	2006 £	2005 £
UK Corporation tax		
Corporation tax	–	–
Foreign tax		
Current tax on foreign income for the year	88,101	–
Total current tax	<b>88,101</b>	–

The tax assessed for the period is higher than the standard rate of corporation tax in the UK.

The differences are explained below:

	2006	2005
	£	£
Loss on ordinary activities before tax	<b>(1,695,909)</b>	(3,788,944)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005: 30%)	<b>(508,773)</b>	(1,136,683)
Effect of:		
Expenses not deductible for tax purposes	<b>4,139</b>	17,859
Fixed asset timing differences	<b>295,065</b>	(162,239)
Research and development enhancement	<b>(57,334)</b>	(142,208)
Tax losses carried forward	<b>251,032</b>	1,423,271
Foreign tax expense deduction	<b>(25,208)</b>	–
Foreign tax paid	<b>84,027</b>	–
Movement in provisions	<b>40,965</b>	–
Under provision in respect of previous years	<b>4,188</b>	–
<b>Current tax charge for period</b>	<b>88,101</b>	–

At 31 August 2006, the Group had corporation tax losses carried forward subject to agreement with HMRC amounting to £6,780,998 (2005: £5,961,930). The full utilisation of these losses in the foreseeable future is uncertain and consequently no deferred tax asset has been recognised in the financial statements.

### 7 (Loss)/Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods.

The weighted average number of ordinary shares in issue for 2006 is 30,049,652 (2005: 29,669,808).

Earnings, being the loss after tax, are £1,784,010 (2005: loss of £3,788,944).

	2006 Number	2005 Number
Reconciliation of denominator for diluted EPS calculation		
Number of shares used in calculation of basic EPS	<b>30,049,652</b>	29,669,808
Dilutive potential ordinary shares held under share option schemes	–	–
Number of shares used in calculation of diluted EPS	<b>30,049,652</b>	29,669,808

In both 2006 and 2005, the loss for the year has resulted in any potential ordinary shares held under share option schemes being anti-dilutive, and, in accordance with FRS 22 have therefore been excluded from the calculation of diluted EPS.

At 31 August 2006 there were 2,645,868 ordinary shares (2005: 2,110,633 ordinary shares) held under the Company's Share Option Schemes and Share Award Plan which could potentially dilute the basic EPS in the future.

### 8 Loss for the financial year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group loss for the year includes a loss after tax and before dividends of £nil (2005: £nil) which is dealt with in the financial statements of the parent company.

### 9 Intangible assets

Group	Patent Costs £	Multi client data library £	Total £
Cost or valuation			
At 1 September 2005	184,840	326,128	510,968
Additions	76,993	471,393	548,386
Disposals	(106,688)	–	(106,688)
At 31 August 2006	<b>155,145</b>	<b>797,521</b>	<b>952,666</b>

Amortisation			
At 1 September 2005	53,367	–	53,367
Provided for the year	100,571	–	100,571
Disposals	(100,407)	–	(100,407)
At 31 August 2006	<b>53,531</b>	–	<b>53,531</b>
Net book value			
At 31 August 2006	<b>101,614</b>	<b>797,521</b>	<b>899,135</b>
At 31 August 2005	131,473	326,128	457,601

## 10 Tangible fixed assets

Group	Plant and machinery £	Computer equipment £	Office equipment £	Assets in the course of construction £	Total £
Cost or valuation					
At 1 September 2005	4,287,886	406,754	132,289	933,870	5,760,799
Additions	10,989	119,251	9,646	567,196	707,082
Disposals	(873,855)	(1,491)	–	–	(875,346)
Transfers	1,501,066	–	–	(1,501,066)	–
At 31 August 2006	<b>4,926,086</b>	<b>524,514</b>	<b>141,935</b>	–	<b>5,592,535</b>
Depreciation					
At 1 September 2005	1,326,491	189,221	68,018	–	1,583,730
Provided for the year	1,509,920	134,993	42,582	–	1,687,495
Disposals	(468,610)	(1,491)	–	–	(470,101)
At 31 August 2006	<b>2,367,801</b>	<b>322,723</b>	<b>110,600</b>	–	<b>2,801,124</b>
Net book value					
At 31 August 2006	<b>2,558,285</b>	<b>201,791</b>	<b>31,335</b>	–	<b>2,791,411</b>
At 31 August 2005	2,961,395	217,533	64,271	933,870	4,177,069

## 11 Fixed asset investments

Company	Group undertakings £
Cost and net book value	
At 1 September 2005 and 31 August 2006	<b>534</b>

The Company's investments represents a holding of 100% of the ordinary share capital of OHM Limited and OHM Inc.

OHM Limited is a company incorporated in England and Wales whose principal activity is the provision of services to the oil exploration and production industry. OHM Inc is a company incorporated in the United States of America whose principal activity is marketing the Group's activities.

## 12 Stock

Group	2006 £	2005 £
Stock of spares and consumables	<b>151,861</b>	193,652

## 13 Debtors

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade debtors	<b>1,665,854</b>	828,843	–	–
Amounts owed by group undertakings	–	–	<b>12,577,082</b>	12,577,614
Other debtors	<b>241,542</b>	108,480	–	–
Prepayments and accrued income	<b>308,919</b>	175,137	–	–
	<b>2,216,315</b>	1,112,460	<b>12,577,082</b>	12,577,614

All amounts shown under Group debtors fall due for payment within one year. The Company debtor falls due for payment outwith one year.

#### 14 Creditors: amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade creditors	1,748,511	867,839	—	
Amounts owed to group undertakings	—	—	—	532
Taxation and social security payable	59,891	44,877	—	
Other creditors	—	2,172	—	
Accruals and deferred income	751,048	776,835	—	
	<b>2,559,450</b>	1,691,723	—	532

#### 15 Financial instruments

The Group had no material financial instruments other than cash, short term debtors and creditors during both this and the prior year.

##### Financial assets

The Group financial assets comprise cash at bank. Fixed rate financial assets for 2006 were US Dollar deposits held in a fixed term Moneymarket account with a 15 day notice period. In 2005 fixed rate financial assets were Sterling deposits held in a fixed term deposit bank account with a 6 month notice period. The weighted average fixed rate of interest was 4.89% (2005: 4.5%). The weighted average period for which the rate was fixed was 45 days (2005: 68 days). Cash at bank earns interest at floating rates based on a discount to US and UK base rates.

As the financial assets disclosed below are cash, the fair value is the same as the book value.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

	Total £	Floating rate Financial assets £	Fixed rate financial assets £
Currency as at 31 August 2006			
Sterling	2,156,425	2,156,425	—
US Dollars	1,282,539	1,282,539	—
	Total £	Floating rate financial assets £	Fixed rate financial assets £
Currency as at 31 August 2005			
Sterling	4,340,468	4,340,468	—
US Dollars	16,035	16,035	—

##### Financial liabilities

The Group has no financial liabilities other than short term creditors.

##### Currency exposure

As at 31 August 2006, the Group had net foreign currency monetary assets denominated in US Dollars which is not the functional currency of the Group of £1,001,000 (2005: £345,000).

##### Credit risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

#### 16 Provision for liabilities

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Deferred taxation				
Accelerated capital allowances	71,039	368,074	—	—
Unutilised tax losses	(2,034,299)	(1,788,579)	—	—

(1,963,260)                      (1,420,505)                      –                      –

In line with the Group's accounting policy on deferred taxation, the potential deferred tax asset has not been recognised in these financial statements.

## 17 Share capital

	2006 £	Authorised 2005 £	2006 £	Allotted, called up and fully paid 2005 £
Equity share capital				
43,000,000 Ordinary shares of 1p each	<b>430,000</b>	430,000	<b>300,497</b>	300,497
			Ordinary shares of 1p each Number	£
In issue at 1 September 2005 and 31 August 2006			30,049,652	300,497

### Share Option Schemes

At 31 August 2006 the following share options were outstanding in respect of the ordinary shares:

Date of grant	Number of shares	Exercise price Period of option	per share
2 September 2002	137,180	September 2002 – September 2012	7.10p
28 November 2002	457,267	November 2002 – November 2012	7.10p
1 December 2003	211,546	December 2003 – December 2013	29.81p
1 December 2003	109,744	December 2003 – December 2013	29.81p
1 March 2004	940,008	March 2004 – March 2014	170.00p
10 June 2005	133,333	June 2005 – June 2008	180.00p

### Share Award Plan

At 31 August 2006 the following share awards were outstanding in respect of the ordinary shares:

Date of grant	Number of shares	Period of exercise	Exercise price per share
1 February 2006	656,790	February 2009 – February 2016	1.00p

## 18 Reserves

Group	Share premium Account £	Share based payments £	Profit and loss reserve account £
At 1 September 2005	12,177,866	–	(3,872,801)
Loss for the year	–	–	(1,784,010)
Share based payments charge	–	–	116,684
At 31 August 2006	<b>12,177,866</b>	<b>116,684</b>	<b>(5,656,811)</b>
Company	Share premium account £	Profit and loss account £	
At 1 September 2005	12,177,866	99,253	
Result for the year	–	–	
At 31 August 2006	<b>12,177,866</b>	<b>99,253</b>	

The charge to the share based payments reserve represents the fair value of the shares to be awarded under the 2006 Share Award Plan.

## 19 Reconciliation of movements in shareholders' funds

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Loss for the year	<b>(1,784,010)</b>	(3,788,944)	—	—
Issue of shares	—	10,518	—	10,518
Premium on shares issued during the year	—	64,134	—	64,134
Share based payments reserve	<b>116,684</b>	—	—	—
Share issue costs refund	—	10,740	—	10,740
Net (reduction)/increase to shareholders' funds	<b>(1,667,326)</b>	(3,703,552)	—	85,392
Opening shareholders' funds	<b>8,605,562</b>	12,309,114	<b>12,577,616</b>	12,492,224
Closing shareholders' funds	<b>6,938,236</b>	8,605,562	<b>12,577,616</b>	12,577,616

## 20 Capital commitments

Group capital commitments approved and committed as at 31 August 2006 were £61,612, (2005: £109,518).

The Company had no capital commitments (2005: £nil).

## 21 Commitments under operating leases

The Group had annual commitments under non-cancellable operating leases as set out below:

	2006 Property £	2006 Other £	2005 Property £	2005 Other £
Operating leases which expire:				
Within one year	<b>21,792</b>	<b>214,038</b>	—	81,200
In two to five years	—	<b>2,731</b>	56,890	1,318
	<b>21,792</b>	<b>216,769</b>	56,890	82,518

The Company has no operating lease commitments.

## 22 Related party disclosures

Related party transactions and balances

During the year, the Group paid consultancy fees to Professor Martin Sinha, during the time when he was a non-executive director of the Company, amounting to £8,250, (2005: £15,000).

Loans and transactions concerning directors and officers of the Company

During the time when David Norwood was a director of the Company, the Group paid £2,217, (2005: £5,000) to IP2IPO Plc (in which David Norwood is a director), in respect of director's services.

During the year the Group also paid £5,000, (2005: £5,000) to East Hill Management Company, LLC, in which Landon Clay is a director, in respect of director's services.

## 23 Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	2006 £	2005 £
Operating loss	<b>(1,563,110)</b>	(4,385,753)
Share based payments charge	<b>116,684</b>	—
Amortisation of intangible fixed assets	<b>100,571</b>	34,349
Depreciation of tangible fixed assets	<b>1,623,922</b>	1,311,682
Decrease/(increase) in stocks	<b>41,791</b>	(193,652)
Decrease/(increase) in debtors	<b>(1,100,083)</b>	27,270
Increase in creditors	<b>867,692</b>	248,201
Net cash inflow/(outflow) from operating activities	<b>87,467</b>	(2,957,903)

## 24 Reconciliation of net cash flow to movement in net funds

	2006 £	2005 £
Decrease in cash	<b>(917,539)</b>	(5,587,980)
Movement in net funds	<b>(917,539)</b>	(5,587,980)
Opening net funds	<b>4,356,503</b>	9,944,483
Closing net funds	<b>3,438,964</b>	4,356,503

## 25 Analysis of net funds

	At 1 September 2005 £	Cash outflow £	At 31 August 2006 £
Cash at bank and in hand	4,356,503	(917,539)	3,438,964

## 26 Post Balance Sheet Event

On 4 October 2006, after the end of the financial year covered by this report, Electromagnetic Geoservices AS (emgs) launched proceedings in the High Court in London against the Group alleging infringement of one of emgs' patents relating to seabed logging. The Company is confident that it is not infringing emgs' patented technology and that this claim should have no impact on the Group's business. No provision has been made in these accounts for any cost relating to this claim.

The Company's AGM will take place at 2pm on 1 December 2006 at the offices of KBC Peel Hunt, 111 Old Broad Street, London, EC2N 1PH.

Copies of the Company's Annual Report and Accounts will be sent to shareholders shortly following which they will be available on the company's website [www.ohmsurveys.com](http://www.ohmsurveys.com).