Quarterly Report 4Q 2012

STRENGTHENED SPONSOR FUNDING FOR 2013

Badger Explorer ASA (BXPL) has expanded its sponsorship base for the Badger Explorer Demonstrator Program; Chevron and Wintershall having recently joined Statoil and ExxonMobil. This expansion of support is good news for the project, enabling access to additional funding and technical expertise. The broader perspective on long-term applications for the technology will also help guide the project and later developments at a strategic level.

In addition to the expanded sponsorship base, the new sponsors now allow BXPL to fulfill conditions of the funding awarded to the Demonstrator Program by Innovation Norway. This will trigger release of the first part of the grant of 20 MNOK, which we expect to take place within a few weeks. The remaining payments are based on further milestones during 2013 and 2014.

Improved effectiveness and accelerated technical development have been the top priority throughout 2012, and will continue be so through 2013. The Badger Explorer Group structure was simplified in 4Q 2012 by divesting Badger Plasma Technology AS in preparation to secure further sponsors. After investigation, plasma technology was not considered a practical drilling method for the Badger tool and the Badger Explorer Group does not wish to divert critical resources to its further development. Badger Plasma Technology AS, the subsidiary set up to develop the technology, was therefore sold in December 2012 to Zaptec AS, for a gross sales price, including IP rights, of 1.9 MNOK.

In parallel, cash was tightly managed with further cost savings wherever possible.

The expanded sponsorship of the Badger Explorer Demonstrator Program directs that this program and its associated technology development will occupy BXPL's technical focus during 2013.

The Demonstrator Program consists of periodic milestone based deliveries, and BXPL, with its sponsoring partners, will continue to steer the development toward field pilots and future commercial operations as quickly as possible.

Main funding sources for 2013 will be the expanded sponsorship, asset sales and release of the Innovation Norway grant award. Stringent cash management will continue to be applied through the year.

BXPL Group's cash position at year end 2012 was 17.6 MNOK, compared to 39.2 MNOK in 2011. Funding from the Badger Demonstrator Program is projected to be 29.5 MNOK in 2013, including contributions from the two new sponsors, Chevron and Wintershall, and delivery of Milestone 3. Adding assets sales and Innovation Norway grant, this is considered sufficient cash to carry the business into 2014.

Accelerated Technical Progress and Reduction of Technology Risk Through 2012

The Badger Demonstrator Program plans to develop and build the first Badger Explorer tool, ready for deployment in a Field Pilot by early 2015. Highlights of the technical studies and risk reducing efforts during the latter part of 2012 include:

- A structured evaluation exercise of the Badger Explorer tool design was conducted, with particular focus on identifying and evaluating elements of the design that may limit its longer-term capabilities. The overall development can be accelerated and de-risked by addressing these early. Specific challenges considered were those related to subsea operations, deeper drilling, challenging formation types, and drilling through gas zones.
    - Primary process risks identified were (a) borehole stability, (b) volume balance, (c) compaction and plug permeability, (d) drilling
    - Risk mitigation activities initiated include work on the engineering of particle size distribution, the transport mechanism through the tool of drilled cuttings, and anchoring.
    - Particle size distribution also has an impact on compaction and plug permeability.
    - Modeling of cavity stability, which has been the subject of ongoing work subcontracted to SINTEF for the past two years, is being consolidated and expanded to better model the overall Badger process, and hence predict tool performance in more challenging subsurface environments.
- Preparing for a Beta version of the tool; further work has been done on the hydraulic power unit, the cable store, electronic hardware, motors and drivers.
- Work was ongoing to extend the capabilities and range of the cable storage solution.
- An improved drilling unit has been designed and the existing test jig modified to enable testing of the new drilling unit. Tests include drill bit, stone crusher, and the transport system.
- The principle of operation of the Compaction System was improved to incorporate plugs built using an engineered Particle Size Distribution (PSD). Implementation of this principle includes testing high speed drilling and additional internal tool mechanisms to generate cuttings that give lower permeability and better compactability.
- Reliance on the availability of clean water for circulation has also been eliminated. As well as increasing the robustness of the design, this enables a means to traverse gas zones, where material amounts of liquid are unlikely to be available.
- A number of mitigating actions have been defined to address the critical issue of wellbore stability, including increasing the number of tool segments, and selection of a low-friction coating for the tool body.
- A means has been devised to quantify Apparent Compaction (the cumulative effects of direct compaction of cuttings and the ability to force slurry into the formation), and this testing effort is under way.
- The High Temperature motor development has been bypassed by selection of a commercial frameless motor, eliminating the need for a custom-built prototype at this stage.
- Testing and quantification of the flow capabilities of drilled cuttings with low fluid content was under way.
- Calidus also conducts development work for the project, including the Hydraulic Power Unit (HPU), the Local Control Unit (LCU), the cable storage solutions and the Badger field joint.

The Company still aims to complete design and build of a beta version of the Badger Explorer, ready for testing by the end of 2013.

The beta version will be vital in the continued development of the Badger Technology; in particular to further identify and mitigate technology risks, better understand overall system operation in representative environments and gain hands-on operational experience with the tool.

The Field Pilot Program

While the target of a first field pilot in the Canadian Oil Sands remains technically valid, a number of risks have been identified regarding the necessary qualification and permits required. To mitigate the risk of such issues delaying the technical program, alternative field pilot test sites have been investigated, including some which are closer to BXPL's facilities in Norway. These, in addition to addressing the issues of qualification and permits, also have the potential for substantial reductions in both the time required for field operations and their costs.

We are currently considering a Field Pilot Program proposal that includes a first Field Pilot Project in glacial tills, mudstones and relatively unconsolidated formations;

conditions that are likely to be encountered in many geographical locations irrespective of the underlying target reservoir. A logical second Field Pilot Project is more representative of the geology of the Barents Sea.

Strategic Industrial Alliance
Development time, development cost and market introduction are critical. Badger Explorer ASA considers a strategic industrial alliance to be something that could accelerate time to market and provide additional capabilities that strengthen the Company through the period of the current business plan.

Negotiations with a potential strategic partner continue, as BXPL strives to strike a balance between the undoubted benefits such an arrangement can provide, and the access to the technology that a partner will want in return for their contribution.

CALIDUS ENGINEERING LTD., UK (75 % OWNED SUBSIDIARY)

Calidus Engineering Ltd. (CEL) is a multi-discipline engineering company specialized in designing down-hole equipment for harsh environments. In addition to modeling and engineering design services, CEL runs a prototype based machine shop. Revenue comes from clients within the petroleum and geothermal industries, as well as from traditional R&D business.

CEL has been a key supplier to Badger for a number of years. Deliveries to BXPL totaled 5.7 MNOK in 2012 (representing 43.2% of gross turnover), compared to 2.8 MNOK the year before (22.6%).

CEL's 2012 turnover was 13.2 MNOK compared to 12.0 MNOK in 2011.

The net result before tax (EBT) was -2.5 MNOK, compared to -1.0 MNOK (ref. note 9) the prior year. Calidus' equity ratio is 30.5%, compared to 39.2% in 2011.

The Badger Board stated in the 1H 2012 report that the financial performance of CEL has been disappointing, and actions have since been taken to improve the situation, including the appointment of Brian Green as Managing Director in October 2012. Another specific initiative was a comprehensive internal audit, during which several legacy items were addressed from a prudent and conservative perspective. This, resulted in the recognition of a number of extraordinary items during 4Q 2012, totaling GBP 366,530, which detriments CEL's EBT for 2012. However, this establishes a much better base for the ongoing business.

CEL has been - and will remain – an important and integrated supplier to Badger Explorer. This intent is reflected in an overall development plan shared with CEL, specific Purchase Orders raised in accordance with this plan, and a further cooperation agreement between CEL and BXPL, signed in 2011. Should CEL be eventually sold, arrangements will be put into place to ensure that the necessary supplies and expertise are made available.

The environment has changed since the original acquisition of a stake in CEL in 2007, and following a review, BXPL believes access to the resources and expertise that resides at CEL can be secured by contractual means, without the necessity of ownership. In response to unsolicited indications of interest in a possible acquisition of CEL, the Board of Directors has initiated a formal process to determine whether a suitable buyer can be found for Calidus Engineering Ltd., who can assure the access to resources and expertise that BXPL requires, while affording more focus on the development of the third party business CEL will need in the longer term.

FINANCIALS AND INVESTOR RELATIONS

As of 31st December 2012, the Badger Explorer Group had a net equity of 127.1 MNOK (equity ratio of 75.5%) compared to 146.5 MNOK as of 31st December 2011 (77.6%).

Investor Relations Issues
Badger Explorer ASA had 841 shareholders as of 31st December 2012. Norwegian entities and individuals hold 63.6% of the total number of outstanding shares and the 20 largest shareholders hold 70.3% of the outstanding shares.

Badger Explorer Group
The Badger Explorer Group operations consists of more than 40 people, including skilled Calidus engineers and dedicated specialists with sub-vendors and various research institutes. The core staff of Badger Explorer ASA consists of 19 employees as of 31st December 2012 compared to 18 employees the year before.

MAIN FIGURES

Revenues for 4Q 2012 were 697 kNOK and 7,855 kNOK for full year 2012, compared to 1,974 kNOK for 4Q 2011 and 9,810 kNOK for the full year.

Operating expenses for 4Q 2012 were 5,765 kNOK and 27,484 kNOK for full year 2012, compared to 10,805 kNOK for 4Q 2011 and 39,262 kNOK for the full year.

EBITDA for 4Q 2012 were -5,068 kNOK and -19,629 kNOK for full year 2012, compared to -8,832 kNOK for 4Q 2011 and -29,452 kNOK for the full year.

Total development costs of the Badger Explorer project in 4Q 2012 were 6,940 kNOK, of which 6,124 kNOK was capitalised. For the full year, development costs were 19,976 kNOK, of which 17,149 kNOK was capitalised.

Calculated receivable public grants in 2012 for the Badger Explorer project amounted to -101 kNOK for 4Q 2012 and to 2,843 kNOK for the full year. All public grants are capitalised together with the project costs.

	Quarters			Year End	
CONSOLIDATED SUMMARY (Unaudited figures in NOK 1000)	**4Q 2012**	3Q 2012	4Q 2011	**31.12.2012**	31.12.2011
Revenues	697	1 561	1 974	7 855	9 810
Operating expenses	5 765	6 480	10 805	27 484	39 262
EBITDA	-5 068	-4 919	-8 832	-19 629	-29 452
Earnings per share (figures in NOK)	-0.28	-0.29	-0.45	-1.10	-1.58
Projects development costs	6 940	4 836	7 696	19 976	30 681

Earnings per share amounted to -0.28 NOK per share for 4Q 2012 and to -1.10 NOK per share for the full year.
Cash reserves as of 31st December 2012 are 17.6 MNOK compared to 39.2 MNOK the year before.

Cash management continues to be a priority.

OUTLOOK

A stronger sponsor group, including Chevron and Wintershall as newcomers, the grant release from Innovation Norway and an appropriate strategic industrial partner will strengthen the Company's funding and accelerate technology development.

Renewed focus at CEL will also contribute to the development of the Badger tool, whilst a potential sale of CEL will release cash reserves and management capacity to enable enhanced focus on the Badger technology.

The ongoing structured technical evaluation maintains the recent focus on reduction of technology risk, strengthening the overall platform from which the Company can progress.

Stavanger, 26th February 2013
The Board of Directors
Badger Explorer ASA

ACCOUNTING POLICIES

Badger Explorer ASA is a public limited company registered in Norway and listed on the Oslo Stock Exchange (Oslo Axess list). The Company's head office is located at Forusskogen 1, 4033 Stavanger, Norway.

The consolidated financial statement of Badger Explorer ASA and all its subsidiaries (the Group) has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statement has been prepared on an historical cost basis, except for investment in shares in liquidity fund which is held to fair value over profit and loss.

The Group's consolidated financial statement comprises the financial statement of Badger Explorer ASA (100%) and Calidus Engineering Ltd. (75%). Badger Plasma Technology AS was sold for MNOK 1.9 in December 2012 and is not consolidated in the Group as of 31.12.2012.

Calidus Engineering Ltd. is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases.

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

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. It the Group losses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit and loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit and loss or retained earnings, as appropriate.

Non-controlling interest represent the portions of profit and loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated statement of financial position, separately from parent shareholder's equity.

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the financial statements as at 31.12.2011.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31.12.2011.

The Group's consolidated financial statements are presented in NOK. Income statement in foreign subsidiary is translated into NOK using the average exchange rate for the period (month). Assets and liabilities in foreign subsidiary, including goodwill and adjustments of fair value of identifiable assets and liabilities arising on the acquisition of subsidiary, are translated into NOK using exchange rate at the balance sheet date. The exchange differences arising from the translation are recognised directly as other comprehensive income in equity.

Financial assets within the scope IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
Financial assets at fair value through profit and loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit and loss.

Financial liabilities within the scope IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs are added.
Financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts and derivate financial instruments.

Inventories are valued at the lower of cost and net realisable value.

Cash includes cash in hand and at bank.

Accounts receivable are recognised in the balance sheet at nominal value less provisions for doubtful debts.

Fixed assets are carried at cost less accumulated depreciations and impairment losses.

The gross carrying amount of fixed assets is the purchase price, including duties/taxes and direct acquisition costs relating to making the asset ready for use.

Depreciation is calculated using the straight-line method.

Intangible assets are capitalised if it is probable that the expected future financial benefits referred to the asset will accrue to the Company, and that the cost can be calculated in a reliable matter.

Development expenditures related to the Badger Explorer development project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The Group's intention to complete and the Group's ability to use or sell the asset.
- How the asset will generate future economic benefits.
- The ability to measure reliably the expenditures during development.
- The availability of resources to complete the assets.

When all the above criteria are met, the cost related to the development starts to be recognised in the balance sheet.

Costs that have been charged as expenses in previous accounting periods are not recognised in the balance sheet.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Revenue is recognised to the extent when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Interest income is recognised in the income statement based on the effective interest method as they are earned.

Public grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grants relate to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the cost it intends to compensate. Where the costs are related to a development project and capitalised, the belonging grants are capitalised together with the cost.

Contributions from partners are recognised in the balance sheet as long term liabilities as the contributions are subject to repayment ref. note 14 in the annual accounts.

During Q3 2009 an option program for all employees was introduced. The options entitle the employees to purchase shares at a predetermined price during a 3.2 year period until 15.11.2012. This is an equity based option program and is recognised on the P&L under personnel costs and on the balance sheet under other paid in equity. The options are recognised over the vesting period starting from 15.09.2009. The option value is based on a third party evaluation of the options at the grant date where the Black-Scholes model was used for calculation.

The cash flow statement is prepared in accordance with the indirect method and based upon IAS 7.

CONSOLIDATED INCOME STATEMENT

	Quarters				Year End	
Unaudited figures in NOK 1000	**4Q 2012**	3Q 2012	4Q 2011	Note	**31.12.2012**	31.12.2011
Revenues						
Other Income	752	1 502	1 916	4	7 735	9 678
Public grants	-157	2 283	1 116	1,2	2 962	3 749
Capitalised public grants	101	-2 223	-1 059	1,2	-2 843	-3 617
Total Revenues	**697**	**1 561**	**1 974**		**7 855**	**9 810**
Operating Expenses						
Cost of goods sold	776	887	454		2 757	2 463
External services for dev. project	4 000	1 692	5 546	4	8 993	19 902
Payroll and related costs	4 844	6 191	9 066		22 985	28 765
Other operating expenses	2 269	1 760	2 898	4,10,13	9 899	16 118
Capitalised development cost	-6 124	-4 050	-7 159	3	-17 149	-27 986
Total Operating Expenses	**5 765**	**6 480**	**10 805**		**27 484**	**39 262**
EBITDA	**-5 068**	**-4 919**	**-8 832**		**-19 629**	**-29 452**
Depreciation	493	1 006	376		2 330	1 471
Operating profit (loss)	**-5 561**	**-5 925**	**-9 208**		**-21 959**	**-30 922**
Net financial income	-89	85	306		341	994
Profit (loss) before taxes	**-5 651**	**-5 840**	**-8 902**		**-21 618**	**-29 928**
Tax on ordinary result	324	-14	372		310	372
Net profit (loss)	**-5 327**	**-5 854**	**-8 530**		**-21 308**	**-29 556**
Profit (loss) attributable to non-controlling interests	-198	-431	-106		-845	-321
Profit (loss) attributable to equity holders of the parent	**-5 129**	**-5 422**	**-8 424**	9	**-20 463**	**-29 235**
Earnings per share	**-0.28**	**-0.29**	**-0.45**		**-1.10**	**-1.58**
Earnings per share diluted	**-0.28**	**-0.29**	**-0.45**		**-1.10**	**-1.56**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (Unaudited figures in NOK 1000)	**31.12.2012**	30.09.2012	Notes	31.12.2011
NON-CURRENT ASSETS				
Capitalised development costs	121 637	116 371	2,3,7	111 037
Patent rights	387	387		387
Goodwill	5 595	5 744	4	5 774
Total intangible assets	**127 619**	**122 501**		**117 198**
Property, plant & equipment	15 273	16 014	12	17 963
Total tangible assets	**15 273**	**16 014**		**17 963**
TOTAL NON-CURRENT ASSETS	142 893	138 515		135 161
CURRENT ASSETS				
Inventories	1 932	2 770		2 776
Sum Inventories	**1 932**	**2 770**		**2 776**
Accounts receivables	2 124	2 019	4,13	5 251
Other receivables	3 652	3 452	4,12	6 565
Total receivables	**5 776**	**5 471**		**11 816**
Cash and cash equivalents	**17 608**	**25 120**		**39 179**
TOTAL CURRENT ASSETS	25 315	33 362		53 771
TOTAL ASSETS	**168 208**	**171 877**		**188 932**

EQUITY AND LIABILITIES (Unaudited figures in NOK 1000)	**31.12.2012**	30.09.2012	Notes	31.12.2011
EQUITY				
Share capital	2 317	2 317	4,5,10	2 317
Share premium fund	218 070	218 070	5	218 070
Other paid in capital	4 582	4 171	4,6	3 219
Total paid in equity	**224 969**	**224 558**		**223 606**
Retained earnings	-99 790	-94 958		-79 812
Total retained earnings	**-99 790**	**-94 958**		**-79 812**
Non-controlling interests	**1 880**	**1 807**		**2 725**
TOTAL EQUITY	127 059	131 407		146 519
LIABILITIES				
Capitalised grants	24 000	24 000	7	18 688
Interest-bearing loans and borrowings	0	0	12	8 347
Total non-current liabilities	**24 000**	**24 000**		**27 034**
Accounts payables	3 801	2 787	4,10	3 086
Interest-bearing loans and borrowings	8 200	9 098	12	741
Public duties payables	1 271	783		1 774
Taxes payables	-0	-0		392
Other short term liabilities	3 878	3 802		9 386
Total current liabilities	**17 149**	**16 470**		**15 379**
TOTAL LIABILITIES	41 149	40 470		42 413
TOTAL EQUITY AND LIABILITIES	**168 208**	**171 877**		**188 932**

CONSOLIDATED STATEMENT OF CASH FLOW

	Quarters				Year End	
Unaudited figures in NOK 1000	**4Q 2012**	3Q 2012	4Q 2011	Note	**31.12.2012**	31.12.2011
Contribution from operations*	-4 010	-4 553	-7 664		-17 632	-27 775
Tax paid	0	-102	0		-102	0
Change in accounts receivables and accounts payables	909	-76	-3 701	4,10	-445	-1 599
Change in other receivables and payables	-347	704	4 945		-2 720	4 788
Net cash flow from operating activities	-3 448	-4 028	-6 420		-20 900	-24 586
Investment/sales fixed assets	-27	-70	-614	12	2	-15 792
Investment/sales shares in liquidity fund	0	0	0		0	52 496
Additional acquisition of shares in subsidiary	0	0	0		0	-8 279
Capitalisation of development cost	-6 124	-4 050	-7 159	3	-17 149	-27 986
Sales of capitalised equipment	34	0	0	3	294	0
Reclassification of contribution from industry partner	0	0	2 488		2 488	2 488
Sale of Badger Plasma Technology AS	752	0	0	4	752	0
Net cash flow from investment activities	-5 365	-4 120	-5 285		-13 613	2 926
Public grants	2 046	2 223	1 059	1	3 617	3 617
Paid in equity	0	0	83		0	982
Contribution from industry partners	0	6 000	-688	7	9 600	752
Net proceeds from borrowings	-898	-186	11	12	-888	8 267
Interest received	166	161	541		831	2 880
Interest paid	-89	-76	-235		-323	-1 766
Net cash flow from financing activities	1 225	8 122	772		12 836	14 733
Total net changes in cash flow	**-7 588**	**-26**	**-10 933**		**-21 676**	**-6 927**
Net foreign translation differences	75	68	186		105	218
Cash and cash equivalents beginning of period	25 120	25 078	49 926		39 179	45 888
Cash and cash equivalents end of period	**17 608**	**25 120**	**39 179**		**17 608**	**39 179**
Profit (loss) attributable to equity holders of the Company	-5 129	-5 422	-8 424		-20 463	-29 235
Profit (loss) attributable to non-controlling interests	-198	-431	-106		-845	-321
Tax on ordinary result	324	0	324		324	372
Employee options	411	380	472		1 363	933
Depreciation	493	1 006	376		2 330	1 471
Financial income	-166	-161	-541		-831	-2 880
Financial expenses	89	76	235		323	859
Loss on sale of subsidiary and shares	166	0	0		166	1 026
***Contribution from operations before tax**	**-4 010**	**-4 553**	**-7 664**		**-17 632**	**-27 775**

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

Unaudited figures in NOK 1000	Note	Share capital	Share premium fund	Other paid in capital	Retained earnings	Non-controlling interest	Total equity
Equity per 31.12.2011		2 317	218 070	3 219	-79 812	2 725	146 519
Total comprehensive income					-19 978	-845	-20 823
Option plan payment				1 363			1 363
Equity per 31.12.2012		**2 317**	**218 070**	**4 582**	**-99 790**	**1 880**	**127 059**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited figures in NOK 1000

	Quarters			Year End	
Total comprehensive income	4Q 2012	3Q 2012	4Q 2011	31.12.2012	31.12.2011
Profit (loss) for the year (period):	-5 327	-5 854	-8 530	-21 308	-29 556
Other comprehensive income					
Translation differences	568	-179	298	484	352
Comprehensive income at end of period	**-4 759**	**-6 033**	**-8 232**	**-20 823**	**-29 204**

	Quarters			Year End	
Total comprehensive income attributable to:	4Q 2012	3Q 2012	4Q 2011	31.12.2012	31.12.2011
Equity holders of the parent	-4 832	-5 574	-8 126	-19 978	-28 883
Non-controlling interest	73	-459	-106	-845	-321
Total comprehensive income	**-4 759**	**-6 033**	**-8 232**	**-20 823**	**-29 204**

NOTES

1. Projects in the Badger Explorer Program are supported by the Research Council of Norway and “Skattefunn” with a percentage of the total project cost. The calculated amount is accrued consecutively. Badger Explorer ASA is supported by “Skattefunn” and RCN in 2012. Changes in project activity has affected the calculation of receivable public grants year to date. Adjustment for this has been made in 2H 2012.

2. The cost and the grants for the development of Badger Explorer Prototype project and Plasma Channel Drilling project are capitalised. Badger Plasma Technology AS was sold in December 2012 and the capitalised project costs for Plasma Channel Drilling is thus eliminated in the Group per 31.12.2012.

3. The project development costs are capitalised in accordance with the IFRS regulations. Additional project cost not capitalised this year due to the restriction in the IFRS standard for the Badger Explorer Prototype project amounts to kNOK 2827 per 31.12.2012. Sales of capitalised equipment amounts to kNOK 260.

4. The 100% owned subsidiary, Badger Plasma Technology AS and the 75% owned subsidiary, Calidus Engineering Ltd. have been consolidated with the parent company Badger Explorer ASA starting from 01.12.2007. Intercompany sales and purchases, intercompany receivables and payables, intercompany investments and share capital are eliminated. Badger Plasma Technology AS was sold for MNOK 1.9 in December 2012 and is not consolidated in the Group per 31.12.2012.

5. The general assembly decided in meeting on 09.05.2007 to split the existing shares which gave an increase in number of shares from 6 719 520 to 13 439 040. A total of 5 000 000 additional shares were issued in connection with the IPO of NOK 160 000 000 related to the listing on Oslo Axess on 12.06.2007. On 18.03.2011 a total number of 73 249 option shares were exercised by employees and 73 249 shares were issued, on 09.06.2011 a total number of 16 666 option shares were exercised by employees and 16 666 shares were issued and on 04.11.2011 a total number of 8 333 option shares were exercised by employees and 8 333 shares were issued. The total number of shares per 31.12.2012 is 18 537 288 at par value of 0.125 per share.

6. The options granted in 2006 were during 3Q 2009 replaced with new options. The new option program was approved and effective from 15.09.2009, included all employees at the time and granted a total of 406 750 share options at a strike of NOK 10 and 25 000 share options at a strike of NOK 15. The options entitle the employees to purchase shares during a 3.2 year period until 15.11.2012. This period has been extended until 3-10 days after the presentation of Annual Report 2012. These are equity based option agreements and are recognised on the P&L under payroll and related costs and on the balance sheet under other paid in capital. The options (incl. Employers’ national insurance contributions) are recognized over the vesting period starting from 15.09.2009. The option value is based on a third party evaluation of the options at the grant date where the Black-Scholes model was used for calculation. The replacement of options was treated as a cancellation and re-pricing under IFRS 2. All options were “out of the money” per 31.12.2012. A total number of 216 237 shares are forfeited. A total of 98 248 share options have been exercised in total. Next exercise window will be after the presentation of the 1Q 2013 report.

   In 3Q 2011 Mr. David Blacklaw, CEO from 05.10.2011, was granted 370 579 share-options in Badger Explorer ASA at a strike price of NOK 19.00 per share. These options must be exercised three to ten days after the presentation of the 3Q 2014 report and were “out of the money” per 31.12.2012.

7. The Group has received contribution from the three industry partners amounting to a total of NOK 28 975 200 since 2005. A total of 24 000 000 of this contribution shall be repaid to the partners by paying 5% royalty of all technology related sales in the future. This royalty is limited to 150% of received contribution. A total of 4 975 200 of this contribution is capitalised as reduction of development cost.

8. Deferred tax asset has not been recognised in the statement of financial position.

9. Below table shows the segments of which the management is reporting to the Board of Directors. The segments are the main projects; Badger Explorer and Plasma Channel Drilling, engineering; Calidus Engineering Ltd. and other activities (mainly administration).

   The column “other” includes all administration support and other costs not allocated directly to any of the other segments. All office equipment and cash in the Norwegian companies are included in this segment.

31.12.2012 - Business segments Unaudited figures in NOK 1000	Badger Explorer	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	13 190	365	-5 699	7 855
Segment profit (loss)	-2 719	-2 535	-15 209	0	-20 463
Total assets	123 433	25 441	19 849	-515	168 208

31.12.2011 - Business segments Unaudited figures in NOK 1000	Badger Plasma	Badger Explorer	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	0	11 984	540	-2 714	9 810
Segment profit (loss)	0	-2 695	-1 001	-25 539	0	-29 235
Total assets	3 412	110 195	35 186	45 985	-5 846	188 932

4Q 2012 - Business segments Unaudited figures in NOK 1000	Badger Explorer	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	3 482	43	-2 828	697
Segment profit (loss)	-708	-593	-3 828	0	-5 129

4Q 2011 - Business segments Unaudited figures in NOK 1000	Badger Plasma	Badger Explorer	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	0	2 360	207	-593	1 974
Segment profit (loss)	0	-538	-355	-7 531	0	-8 424

* Badger Plasma Technology AS was sold in December 2012.

10. Related party transaction

Unaudited figures in NOK 1000

Transaction with related party	**31.12.2012**	**31.12.2011**
Purchased services*	0	90

* The Company has purchased consultancy services from Norsaco in 2011 in which Kjell Markman (Sr. VP Bus. Dev. & Strategy) is Chairman of the Board and owns 25% of the shares.

Transaction with shareholders	**31.12.2012**	**31.12.2011**
Accounts payable**	515	165
Purchased services**	5 572	2 703
Loan to subsidiary**	1 630	0

**The Company has purchased engineering- and production services from Calidus Engineering Ltd. in which Badger Explorer ASA owns 75% and Nigel Halladay (previous CEO of Calidus Engineering Ltd.) owns 25% of the shares. Nigel Halladay also owns 77 500 shares in Badger Explorer ASA. Badger Explorer ASA has provided Calidus Engineering Ltd. with a loan of GBP 180 000 with interest of 3.20% p.a. and downpayment within 2 years.

Shares held by Board of Directors and Management group	**31.12.2012**	**31.12.2011**
SEB Private Bank S.A. Luxembourg (Board Director - Marcus Hansson)	565 000	65 000
Board Director - Marcus Hansson	11 668	11 668
SIX SIS AG 25PCT (Board Director - Marcus Hansson)	-	500 000
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	301 872	301 872
Nilsholmen Investering AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	209 222	209 222
Nilsholmen AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	20 200	20 200
Invest OK AS (Board Director - Kristine Holm)	15 000	15 000
CFO - Gunnar Dolven	8 000	8 000
Board Director - Tone Kvåle	5 000	5 000
Mng. HR, Economy & Adm. - Hege Furland	2 858	2 858
Ordinary shares	**1 138 820**	**1 138 820**
% of total shares	6.1 %	6.1 %

11. Fair value hierarchy

As at 31.12.2012 the Group does not hold any financial instruments carried at fair value in the statement of financial position.

12. Purchase of lease - Calidus Engineering Ltd.

In June 2011 Calidus Engineering Ltd. purchased a lease of units 6&7 Treleigh Industrial Estate of a total of MNOK 12.2 (£1 412 500) of which MNOK 8.1 (£940 000) relates to the building (shell only) and MNOK 4.1 (£472 500) relates to the plant and machinery. The building will be depreciated over 25 years and the plant and machinery will be depreciated over 10 years. The purchase is financed by:

1. A mortgage with HSBC of MNOK 6.9 (£800 000) over 15 years with an interest rate of 5.0% over the bank's steering base rate.

2. A grant from The European Regional Development Fund of total MNOK 3.9 (£450 000) over the next 4 years (until end 2014). The grant is recognised in other receivables and will be written off to the P&L over the life of the assets to which it relates.

3. An additional loan of MNOK 1.7 (£200 000) from HSBC over 15 years with an interest rate of 5.25% over the bank's steering base rate.

The mortgage with HSBC of £800 000 and the loan with HSBC of £200 000 are in breach of all 3 covenants per 31.12.2012 and the term of the loans have been renegotiated.

As the mortgage and loan are in breach of the covenants per 31.12.2012 they are classified as current liabilities.

As per 31.12.2012 Calidus Engineering Ltd. has a bank overdraft facility of kGBP 110, but nothing drawn under the facility per 31.12.2012.

13. Accounts receivables

A total of GBP 57 148 has been recognised as provision for potential loss on receivables in Calidus Engineering Ltd. per 31.12.2012.

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