Semi-annual Report 1H 2012

PLAN FOR TRANSFORMATIONAL CHANGE – SIGNIFICANT PROGRESS ACHIEVED IN 2012

Following completion of the Prototype Phase of Badger Explorer in 2011, a three-year plan for Transformational Change at BXPL was developed, focusing on attaining commercial activity as early as possible. Significant progress has been achieved since introduction of the plan, which has been extended to a long term plan, which contains:

- The pre-commercial and commercial phase 2012-2014
    - The Badger Demonstrator Program, working with Sponsors
    - Preparation of the initial Field Pilot
- Ongoing product development and commercial roll-out as from 2015 of the new capabilities thus developed.
- An ongoing Field Pilot program, to demonstrate the successive extension of the Badger's capabilities, and to establish the basis for subsequent commercial activity.
- Involvement of a Strategic/Industrial partner, to accelerate time to full commercial activity and further reduce technology risk.

TECHNICAL PROGRESS AND REDUCTION OF TECHNOLOGY RISK 1H 2012

A robust plan has been devised for the development of the Badger Explorer tool, to be deployed in a Field Pilot in Canada in early 2015. Substantial reductions in Technology Risk have already been achieved as follows:

- Modification of the existing Badger Explorer Demonstrator Program to incorporate a Beta version of the tool by mid-2013.
- A detailed Feasibility Study for the field pilot was conducted throughout December 2011 to February 2012.
- The significant challenge of the Separation System was addressed by devising a new transport mechanism incorporating a piston pump, effectively eliminating the problem of separation.
- Reliance on the availability of clean water for circulation is also eliminated.
- In particular, a means has been defined to traverse gas zones, where substantial amounts of liquid are not likely to be available.
- The critical issue of wellbore stability has been addressed by applying the established principles of Dual-Tube Reverse-Circulation (DTRC) drilling, where support for unconsolidated formations is provided by the tool body, and the entire circulation and return path is now internal to the tool.
- 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.
- High Temperature motor development has been bypassed by selection of a commercial frameless motor, eliminating the need for a custom-built prototype.

CORPORATE MANAGEMENT IMPROVEMENTS THROUGH 1H 2012

The plan for transformational change also includes staff rationalization and improvements to the organizational structure, which were implemented during 1H 2012.

Øystein Larsen has been appointed as Chief Technology Officer, and further new talent has been recruited. Arrangements have been established to access, on a consultancy basis, several former employees with key knowledge and experience of the Badger technology.

The Company's management systems have been strengthened to improve financial control, minimize spend, and increase awareness of financial accountability.

An overdraft facility of MNOK 7.5 has been established for the three-year planning period to bridge short-term fluctuations in liquidity.

The role of Calidus Engineering Ltd. related to the Badger development has been defined more clearly.

BADGER EXPLORER DEMONSTRATOR PROGRAM

The Badger Demonstrator Program 2012-2014 consists of six concrete milestones. To increase the time available for reliability engineering and development of system operational experience, timing of several milestones has been brought forward, and a Beta Version of the Badger tool is now scheduled to be ready for testing by mid-2013. These changes should increase our overall probability of success, and accelerate the development timing given that we are now ahead of the original schedule.

In early August, the Steering Committee approved the Milestone 1 deliverables (provided in June 2012), and approved release of the related sponsor funding of MNOK 6.0.

ExxonMobil and Statoil have been sponsors since 2005. Our plan is to add 2-3 further sponsors, and specific discussion is under way with further operating companies to this end. New sponsors will be asked to contribute a catch-up amount to gain parity with the original sponsors. Ongoing discussions with potential new sponsors have gained momentum, and negotiations with two such companies have reached an advanced stage.

THE FIELD PILOT PROGRAM

The target for the first commercial Badger Explorer service is an oil sands application in Canada. A feasibility study completed during 1Q 2012 confirms the viability of the proposed service; an environmental application including long-term monitoring of formation water salinity and subsurface heave.

Efforts are continuing to pursue a contractual basis for this field pilot, but due to procedural issues relating to the placing of commercial orders for technology still under development, it is unrealistic to expect a formal contract before next year. The focus is now on bridging the gap between our current position and the Technical Readiness Level (TRL) that an oilfield asset will require in order to issue a commercial Purchase Order.

The overall program includes at present five individual Field Pilot Projects (FPPs), each of which aims to establish the basis for subsequent related commercial services of increasing complexity. FPP1 establishes the viability of oil sands environmental monitoring commercial services, a market considered to be large and where we see certain benefits to the customers in using Badger services.

- FPP1 is scheduled for deployment during early 2015, with commercial deliveries shortly thereafter.
- FPP2 targets Onshore Exploration Services, i.e. formation evaluation in unexplored areas, and is planned to be released in second half of 2015. In the first phase, the market will most likely be Canada, as the data acquired will be validated based on local geology, and the equipment needed will be very similar in specification to FPP1.
- FPP3 will follow in 2016 and comprise offshore exploration data and surveillance, and will open the door for Badger commercial offshore services.
- FPP4, planned for 2017, will establish subsea type operations and will introduce advanced offshore services.
- Finally, FPP5 will be launched 2019, enabling the Badger technology to access the high value exploration markets.

The development plan is challenging, and it will be necessary for us to maintain a strong focus on the core technical and commercial issues. Potential business areas beyond the primary Badger scope will be divested rather than detract from this focus. In this context, development time and development cost are critical. The same applies for market introduction. 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 business plan period. Emphasis has been given to seeking an appropriate strategic partner, but discussions are ongoing.

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

Calidus Engineering Ltd. (Calidus) is a multi-discipline engineering company specialized in designing down-hole equipment for harsh environments. In addition to modeling and engineering design services, Calidus runs a prototype based machine shop. Revenue comes from clients within the petroleum and geothermal industries, as well as from traditional R&D business. In 2011, Calidus Engineering Ltd. moved into new premises on Treleigh Industrial Estate in Redruth, Cornwall.

Calidus has been a key supplier to Badger for a number of years. Deliveries to Badger comprised MNOK 1.65 in 1H 2012 (representing 23.8% of gross turnover in 1H 2012) compared to MNOK 1.27 in 1H 2011 (18.2%).

Calidus' turnover during 1H 2012 was MNOK 6.9 compared to MNOK 7.0 in 1H 2011.

The net result before tax (EBT) was MNOK -0.8, compared to MNOK 0.1 the year before. Calidus' equity ratio is 37.5%, compared to 38.5% in 2011. The financial performance of Calidus has been disappointing, and management is working to improve this situation.

FINANCIALS AND INVESTOR RELATIONS

As of 30.06.2012, the Badger Explorer Group had a net equity of MNOK 137.1 (equity ratio of 78%) compared to MNOK 162.3 as of 30.06.2011 (80.5%).

INVESTOR RELATIONS ISSUES

Badger Explorer ASA has 866 shareholders as of 30.06.2012. Norwegian entities and individuals hold 63.7% of the total number of outstanding shares and the 20 largest shareholders hold 69.9% 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 15 employees. As the Group shifts its emphasis to more technical and operational activities, the proportion of this type of employee will increase.

EQUAL OPPORTUNITIES AND FAIR TREATMENT OF PERSONNEL

As of 30.06.2012 Badger Explorer ASA has 15 permanent employees, of whom four are female. Badger Plasma Technology AS has no permanent employees. Calidus Engineering Ltd. has 25 employees, 22 male and three female. In order to succeed, the Group is dependent upon engaging the best competence available; hence competence must be sourced where it is available. However the Company emphasizes the importance of maintaining a balance and distribution of gender, equal compensation for similar work and equal opportunities for everyone in the development and running of the Company. The staff is multinational representing six nationalities.

The Board of Directors has five members of whom three are male and two are female.

MAIN FIGURES

Revenues for 2Q 2012 amounted to kNOK 1 987 and to kNOK 5 597 for 1H 2012, compared to kNOK 2 928 for 2Q 2011 and kNOK 5 986 for 1H 2011.

Operating expenses for 2Q 2012 amounted to kNOK 7 670 and to kNOK 15 239 for 1H 2012, compared to kNOK 9 300 for 2Q 2011 and kNOK 17 590 for 1H 2011.

EBITDA for 2Q 2012 amounted to kNOK -5 683 and to kNOK -9 642 in 1H 2012, compared to kNOK -6 371 for 2Q 2011 and kNOK -11 603 for 1H 2011.

Total development costs for the Badger Explorer Prototype project amounted to kNOK 3 954 of which kNOK 3 399 was capitalized for 2Q 2012 and amounted to kNOK 8 200 of which kNOK 6 975 was capitalized for 1H 2012. A recalculation of receivable public grants YTD 2012 for the Badger Explorer project amount to kNOK -831 for 2Q 2012 and amount to kNOK 720 for 1H 2012. All public grants are capitalized together with the project costs.

Earnings per share amounted to NOK -0.30 per share for 2Q 2012 and amounted to NOK -0.53 per share for 1H 2012.

	Quarters			Year to date	
CONSOLIDATED SUMMARY (Unaudited figures in NOK 1000)	**2Q 2012**	1Q 2012	2Q 2011	**30.06.2012**	30.06.2011
Revenues	1 987	3 610	2 928	5 597	5 986
Operating expenses	7 670	7 569	9 300	15 239	17 590
EBITDA	-5 683	-3 959	-6 371	-9 642	-11 603
Earnings per share (figures in NOK)	-0,30	-0,23	-0,40	-0,53	-0,65
Projects development costs	3 954	4 246	8 937	8 200	15 579
Public grants for projects dev.	-831	1 551	874	720	1 623
Cap. of dev. costs and public grants	4 230	2 025	7 224	6 255	12 329

Cash reserves per 30.06.2012 are MNOK 25.1. Cash management continues to be a priority:

- A new overdraft facility has been established;
- The Demonstrator Program Milestone 1 payment has been invoiced;
- Grants have been awarded by Innovation Norway and the Research Council of Norway;
- Advanced discussions are under way with new sponsors;
- An option of an asset sale is under consideration if advantageous

RISK CONSIDERATIONS

For a company dependent on groundbreaking technological development, it is of the utmost importance to continuously monitor and analyze the risks, and manage them in a professional manner. The Company continuously works to reduce the risk elements that could influence its success, through steady progress in the development project, securing competence, skills and capacities, and through financing and robust partnerships.

The risk elements highlighted in the 2011 Annual Report were:

- Technology in relation to the Badger Explorer
- Competing technologies
- The oil service market
- Authorities' permission
- Environmental aspects
- Foreign currency risk
- Interest rate risk
- Credit risk
- Liquidity risk

The risk elements listed above are still regarded the main risk factors for the Company, although their relative priorities have been revised. Further risk reduction is achieved by indentifying and focusing on a specific commercial service.

The most important risk-reducing effort conducted during 1H 2012, for example, is the technical progress represented by the Badger Demonstrator Program, which we now assess as being less than the liquidity risk. Efforts to bring sponsors and partners on board occupy an increasing proportion of our focus, but the long term business plan and the Badger Demonstrator plan 2012-2014 both contain various sources to solve the funding challenges. Timing concerning the financial contributions from various sources may yet prove to be a challenge, and to bridge this potential gap, credit lines of MNOK 7.5 have been established with external bankers.

OUTLOOK

The solid technical risk-reducing achievements through the first half of 2012 provide an improved basis for continued positive development through the remainder of 2012.

New sponsors will strengthen the Company's funding once their commitment is confirmed.

The long term business plan outlines a strong future. To further accelerate the business plan, BXPL is actively considering selection of an appropriate strategic partner.

Throughout the first half of 2012, BXPL engineers have been focused on solutions to key technical challenges. Strong progress has been made, providing an improved platform from which to move to the commercial phase of its development. The focus for the remainder of the year is to build on this technical momentum, whilst finalizing further sponsorships, firming up the Field Pilot and strengthening the balance sheet.

Stavanger, 22nd August 2012
The Board of Directors
Badger Explorer ASA

Marcus Hansson (Chairman of the Board)	**Kristine Holm** (Board member)	**Tone Kvåle** (Board member)
Clive Mather (Board member)	**John R. Wilson** (Board member)	**David W. Blacklaw** (President & CEO)

RESPONSIBILITY STATEMENT

The Board of Directors and the CEO confirm that to the best of their knowledge the condensed set of financial statements for the first half year of 2012 which have been prepared in accordance with IAS 34 – Interim Financial Reporting, gives a true and fair view on the Group's consolidated assets, liabilities, financial position and results of the operation for the period, and that the interim management report includes a fair review of the information required under the Norwegian Securities Trading Act section 5-6 fourth paragraph.

Stavanger, 22nd August 2012
The Board of Directors
Badger Explorer ASA

Marcus Hansson (Chairman of the Board)	Kristine Holm (Board member)	Tone Kvåle (Board member)
Clive Mather (Board member)	John R. Wilson (Board member)	David W. Blacklaw (President & CEO)

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%), Badger Plasma Technology as (100%) and Calidus Engineering Ltd. (75%).

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries 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. If the Group looses 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 or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interest represent the portions of profit or 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 shareholders' equity.

The interim financial statement 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 statements in foreign subsidiaries are translated into NOK using the average exchange rate for the period (month). Assets and liabilities in foreign subsidiaries, including goodwill and adjustments of fair value of identifiable assets and liabilities arising on the acquisition of subsidiaries 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 of 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 or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and

borrowings, or as derivates 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 overdrafts, 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 and the Badger Plasma Technology project are recognized 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 reliable the expenditure during development.
- The availability of resources to complete the assets.

When all the above criteria are met, the cost relating to development start to be recognized 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 reliability 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 deducting the carrying amount of the asset.

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 were 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 recognized on the P&L under personnel costs and on the balance sheet under other paid in equity. The options 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 cash flow statement is prepared in accordance with the indirect method and based upon IAS 7.

CONSOLIDATED INCOME STATEMENT

	Quarters				Year to date		Year end
Unaudited figures in NOK 1000	**2Q 2012**	1Q 2012	2Q 2011	Note	**30.06.2012**	30.06.2011	31.12.2011
Revenues							
Other Income	1 928	3 553	2 910	4	5 481	5 968	9 678
Public grants	-772	1 608	893	1,2	836	1 641	3 749
Capitalised public grants	831	-1 551	-874	1,2	-720	-1 623	-3 617
Total Revenues	**1 987**	**3 610**	**2 928**		**5 597**	**5 986**	**9 810**
Operating Expenses							
Cost of goods sold	473	621	348		1 094	1 313	2 463
External services for dev. project	1 734	1 566	5 583	4	3 300	9 069	19 902
Payroll and related costs	5 548	6 401	6 309		11 949	12 970	28 765
Other operating expenses	3 314	2 557	5 157	4,10,13	5 870	8 190	16 118
Capitalised development cost	-3 399	-3 576	-8 098	3	-6 975	-13 951	-27 986
Total Operating Expenses	**7 670**	**7 569**	**9 300**		**15 239**	**17 590**	**39 262**
EBITDA	**-5 683**	**-3 959**	**-6 371**		**-9 642**	**-11 603**	**-29 452**
Depreciation	409	422	372		831	646	1 471
Operating profit (loss)	**-6 092**	**-4 381**	**-6 743**		**-10 473**	**-12 249**	**-30 922**
Net financial income	137	209	-451		346	178	994
Profit (loss) before taxes	**-5 955**	**-4 172**	**-7 194**		**-10 127**	**-12 071**	**-29 928**
Tax on ordinary result	0	0	0		0	0	372
Net profit (loss)	**-5 955**	**-4 172**	**-7 194**		**-10 127**	**-12 071**	**-29 556**
Profit (loss) attributable to non-controlling interests	-337	121	218		-216	23	-321
Profit (loss) attributable to equity holders of the parent	**-5 619**	**-4 293**	**-7 412**	9	**-9 911**	**-12 094**	**-29 235**
Earnings per share	**-0,30**	**-0,23**	**-0,40**		**-0,53**	**-0,65**	**-1,58**
Earnings per share diluted	**-0,30**	**-0,23**	**-0,40**		**-0,53**	**-0,65**	**-1,56**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (Unaudited figures in NOK 1000)	**30.06.2012**	31.03.2012	30.06.2011	Notes	31.12.2011
NON-CURRENT ASSETS					
Capitalised development costs	114 544	110 575	101 484	2,3,7	111 037
Patent rights	387	387	387		387
Goodwill	5 820	5 672	5 367	4	5 774
Total intangible assets	**120 751**	**116 633**	**107 238**		**117 198**
Property, plant & equipment	17 120	17 279	16 773	12	17 963
Total tangible assets	**17 120**	**17 279**	**16 773**		**17 963**
TOTAL NON-CURRENT ASSETS	137 872	133 911	124 011		135 161
CURRENT ASSETS					
Inventories	3 540	2 811	2 800		2 776
Sum Inventories	**3 540**	**2 811**	**2 800**		**2 776**
Accounts receivables	1 971	4 091	4 758	4,13	5 251
Other receivables	6 439	6 955	7 683	4,12	6 565
Total receivables	**8 411**	**11 045**	**12 440**		**11 816**
Cash and cash equivalents	**25 078**	**31 368**	**62 352**		**39 179**
TOTAL CURRENT ASSETS	37 029	45 224	77 593		53 771
TOTAL ASSETS	**174 901**	**179 135**	**201 604**		**188 932**

EQUITY AND LIABILITIES (Unaudited figures in NOK 1000)	**30.06.2012**	31.03.2012	30.06.2011	Notes	31.12.2011
EQUITY					
Share capital	2 317	2 317	2 316	4,5,10	2 317
Share premium fund	218 070	218 070	217 988	5	218 070
Other paid in capital	3 791	3 457	2 693	4,6	3 219
Total paid in equity	**224 178**	**223 844**	**222 997**		**223 606**
Retained earnings	-89 384	-84 103	-63 815		-79 812
Total retained earnings	**-89 384**	**-84 103**	**-63 815**		**-79 812**
Non-controlling interests	**2 265**	**2 544**	**3 069**		**2 725**
TOTAL EQUITY	137 059	142 285	162 251		146 519
LIABILITIES					
Capitalised grants	18 000	16 200	17 935	7	18 688
Interest-bearing loans and borrowings	0	8 046	8 174	12	8 347
Total non-current liabilities	**18 000**	**24 246**	**26 110**		**27 034**
Accounts payables	2 816	1 443	3 258	4,10	3 086
Interest-bearing loans and borrowings	9 285	0	0	12	0
Public duties payables	1 439	1 485	1 415		1 774
Taxes payables	394	385	393		392
Other short term liabilities	5 907	9 292	8 178		10 127
Total current liabilities	**19 842**	**12 605**	**13 243**		**15 379**
TOTAL LIABILITIES	37 842	36 850	39 353		42 413
TOTAL EQUITY AND LIABILITIES	**174 901**	**179 135**	**201 604**		**188 932**

CONSOLIDATED STATEMENT OF CASH FLOW

	Quarters				Year to date		Year end
Unaudited figures in NOK 1000	**2Q 2012**	1Q 2012	2Q 2011	Note	**30.06.2012**	30.06.2011	31.12.2011
Contribution from operations*	-5 349	-3 722	-6 166		-9 070	-11 195	-28 147
Change in accounts receivables and accounts payables	3 492	-482	1 833	4,10	3 010	-933	-1 599
Change in other receivables and payables	-3 635	-1 556	707		-5 191	1 692	5 160
Net cash flow from operating activities	-5 491	-5 760	-3 626		-11 251	-10 437	-24 586
Investment/sales fixed assets	129	289	-13 590	12	101	-13 778	-15 792
Investment/sales shares in liquidity fund	0	0	43 087		0	52 616	52 455
Additional acquisition of shares in subsidiary	0	0	-8 279		0	-8 279	-8 279
Capitalisation of development cost	-3 399	-3 576	-8 098	3	-6 975	-13 951	-27 986
Sales of capitalised equipment	260	0	0	3	260	0	0
Reclassification of contribution from industry partner	0	2 488	0		2 488	0	2 488
Net cash flow from investment activities	-3 009	-800	13 120		-4 126	16 607	2 885
Public grants	-831	1 551	893	1	720	1 641	3 617
Paid in equity	0	0	167		0	899	982
Contribution from industry partners	1 800	-2 488	0	7	-688	0	752
Proceeds from borrowings	1 239	-301	8 110	12	938	8 015	8 187
Interest received	216	287	726		503	1 632	-1 725
Interest paid	-79	-79	-1 177		-157	-1 453	2 880
Net cash flow from financing activities	2 345	-1 028	8 719		1 316	10 733	14 694
Total net changes in cash flow	**-6 156**	**-7 588**	**18 212**		**-14 061**	**16 904**	**-7 007**
Net foreign translation differences	-134	-223	-39		-40	-519	218
Cash and cash equivalents beginning of period	31 368	39 179	44 179		39 179	45 888	45 888
Cash and cash equivalents end of period	**25 078**	**31 368**	**62 352**		**25 078**	**62 273**	**39 099**
Net result	-5 619	-4 293	-7 412		-9 911	-12 094	-29 235
Profit (loss) attributable to non-controlling interest	-337	121	218		-216	23	-321
Employee options	334	238	205		572	408	933
Depreciation	409	422	372		831	646	1 471
Financial income	-216	-287	-726		-503	-1 632	-2 880
Financial expenses	79	79	1 177		157	1 453	1 886
***Total contribution from operations**	**-5 349**	**-3 722**	**-6 166**		**-9 070**	**-11 195**	**-28 147**

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					-9 572	-460	-10 032
Option plan payment				572			572
Equity per 30.06.2012		**2 317**	**218 070**	**3 791**	**-89 384**	**2 265**	**137 059**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Quarters			Year to date		Year end
Total comprehensive income (Unaudited figures in NOK 1000)	2Q 2012	1Q 2012	2Q 2011	30.06.2012	30.06.2011	31.12.2011
Profit (loss) for the year (period):	-5 955	-4 172	-7 194	-10 127	-12 071	-29 556
Other comprehensive income						
Translation differences	395	-300	-161	95	-792	352
Comprehensive income at end of period	**-5 560**	**-4 472**	**-7 355**	**-10 032**	**-12 863**	**-29 204**

	Quarters			Year to date		Year end
Total comprehensive income attributable to:	2Q 2012	1Q 2012	2Q 2011	30.06.2012	30.06.2011	31.12.2011
Equity holders of the parent	-5 281	-4 291	-7 573	-9 572	-12 886	-28 883
Non-controlling interest	-279	-181	218	-460	23	-321
Total comprehensive income	**-5 560**	**-4 472**	**-7 355**	**-10 032**	**-12 863**	**-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 2Q 2012.

2. The cost and the grants for the development of Badger Explorer Prototype project and Plasma Channel Drilling project are capitalised.

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 1225 per 30.06.2012. 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.

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 30.06.2012 is 18 537 288 at par value

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. 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. The options at a strike of NOK 10 were "in the money" per 30.06.2012. The option at a strike of NOK 15 were "out of the money" per 30.06.2012. A total number of 139 501 shares are forfeited. A total number of 73 249 share options were exercised in the 1Q 2011 exercise window, a total number of 16 666 share options were exercised in the 2Q 2011 exercise window and a total number of 8 333 share options were exercised in the 3Q 2011 window. A total of 98 248 share options have been exercised in total. Next exercise window will be after the

   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 30.06.2012.

7. The Group has received contribution from the three industry partners amounting to a total of NOK 22 975 200 since 2005. A total of 18 000 000 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.

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.

30.06.2012 - Business segments Unaudited figures in NOK 1000	Badger Explorer	Badger Plasma	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	0	6 925	321	-1 650	5 597
Segment profit (loss)	-1 225	0	-648	-8 038	0	-9 911
Total assets	113 620	924	32 525	34 260	-6 429	174 901

30.06.2011 - Business segments Unaudited figures in NOK 1000	Badger Explorer	Badger Plasma	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	0	7 045	218	-1 276	5 986
Segment profit (loss)	-1 628	0	68	-10 535	0	-12 094
Total assets	98 304	5 899	36 200	69 962	-8 762	201 604

2Q 2012 - Business segments Unaudited figures in NOK 1000	Badger Explorer	Badger Plasma	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	0	2 927	33	-973	1 987
Segment profit (loss)	-555	0	-1 010	-4 054	0	-5 619

2Q 2011 - Business segments Unaudited figures in NOK 1000	Badger Explorer	Badger Plasma	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	0	3 812	87	-971	2 928
Segment profit (loss)	-839	0	263	-6 837	0	-7 412

10. Related party transaction

    Unaudited figures in NOK 1000

Transaction with related party	**30.06.2012**	**30.06.2011**
Accounts payable*	0	0
Purchased services*	0	50

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

Transaction with shareholders	**30.06.2012**	**30.06.2011**
Accounts payable**	339	150
Purchased services**	1 659	1 613

**The Company has purchased engineering- and production services from Calidus Engineering Ltd. in which Badger Explorer ASA owns 75% and Nigel Halladay (CEO of Calidus Engineering Ltd.) owns 25% of the shares. Nigel Halladay also owns 77 500 shares in Badger Explorer ASA.

Shares held by Board of Directors and Management group	30.06.2012	30.06.2011
SIX SIS AG 25PCT (Board Director - Marcus Hansson)	0	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
SEB Private Bank S.A. Luxembourg (Board Director - Marcus Hansson)	565 000	65 000
Nilsholmen AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	20 200	20 200
Invest OK AS (Board Director - Kristine Holm)	15 000	15 000
Board Director - Marcus Hansson	11 668	11 668
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 30.06.2012 the Group does not hold any financial instruments carried at fair value on the statement of financial positions.

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 2.5% 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 3 years. 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 2.5% 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 2 out of 3 covenants per 30.06.2012. HSBC only calculate the covenants per 31.12 and the company will need a waiver from the bank if still in breach per 31.12.2012. If HSBC do not issue a waiver the terms of the mortgage and the loan must be renegotiated.

As the mortgage and loan are in breach of the covenants per 30.06.2012 they are classified as current liabilities. If not in breach a total of MNOK 8.1 of this mortgages and loans would have been classified as non-current liabilities and a total of MNOK 0.7 would have been classified as current liabilities per 30.06.2012.

As per 30.06.2012 Calidus Engineering Ltd. has a bank overdraft of MNOK 0.5.

13. Accounts receivables

A total of GBP 106 518 has been recognised as provision for potential loss on receivables in Calidus Engineering Ltd. per 30.06.2012.

Badger Explorer ASA
Org.nr. 985 955 107 MVA

Visiting address: Forusskogen 1, 4033 Stavanger, Norway
Postal address: P.O.Box 147, 4065 Stavanger, Norway

Switchboard: +47 52 97 45 00 / Fax: +47 52 97 45 01

www.bxpl.com