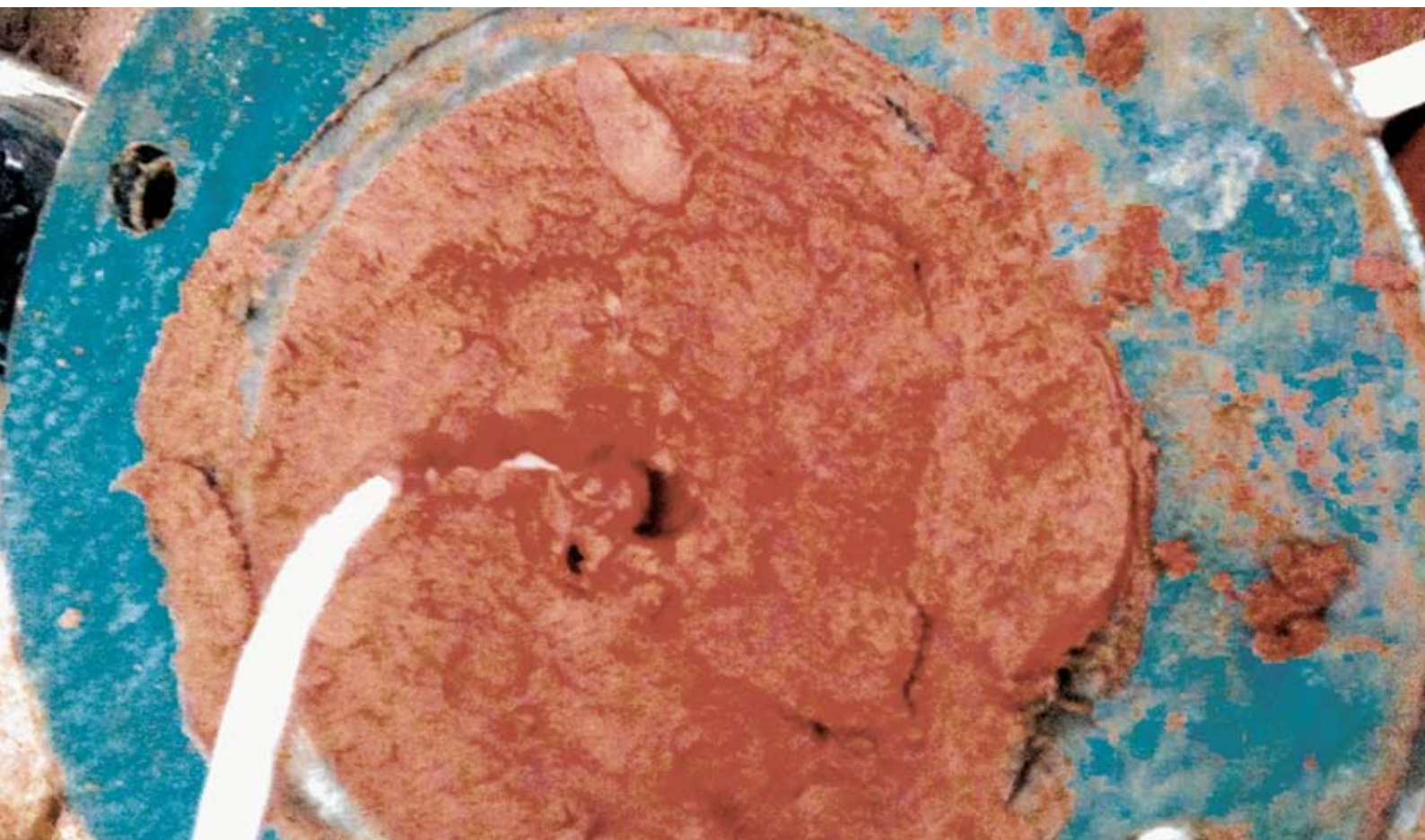




**BADGER**  
EXPLORER



Quarterly Report 1Q 2010

### SUCCESSFUL GROUND-BREAKING DEMONSTRATION OF CONCEPT

Badger Explorer ASA has recently announced a successful ground-breaking demonstration of the Badger Explorer concept at the test site in Eastern Norway. The Board of Directors is proud to announce that this demonstration is the world's first operation of its kind. The self burial test was a closed cavity operation and the Badger Explorer tool was remotely operated through an electric cable. This successful test is the proof of the Badger Explorer concept as well as a concluding step of the Company's prototype phase. The Badger Explorer development program is now entering the pre-commercial phase.

The activities of the first quarter of 2010 have been focused on the Demo50 version2 full-scale self burial test. The preparation efforts and the test program have been comprehensive.

The Badger Group's cash position is MNOK 127 as of 31.03.2010. The strong cash position and client partner support in the upcoming pre-commercial phase is considered to be sufficient funding to reach the commercial phase.

### 1Q 2010 - AN OVERVIEW

#### *Prototype phase*

To assist the drilling test program various additional activities have taken place early in 1Q 2010. Three wells have been drilled to 12 meters depths equipped with a one and a half meters steel conductor. These wells have served as start wells and are equipped with a six meters high launch chamber, bolted to the top of the well conductor as the length of the current Demo50 version2 is 18 meters. This start set-up is needed to assure a controlled start of the drilling process and secure valuable test data. Additional counter weights (several tons of concrete blocks) are also required to withstand the powerful upwards compaction force as soon as the tool's anchor-section is below the conductor shoe.

The Demo50 version2, a prototype of 18 meters length with a diameter of 15 centimeters and fitted with 50 meters of cable, is made up of three separate main units (drilling-, hydraulic/electronic control- and compaction unit). Badger Explorer ASA's subsidiary Calidus Engineering Ltd. has delivered the advanced electronic control and hydraulic drive unit.

The qualification of the tool has been a comprehensive process. Successful test runs of 10-12 hours have taken place at the workshop in Stavanger. The timeconsuming test program revealed that several functions of the tool had to be improved and redesigned. At the end of 1Q 2010 some of these main functions were rebuilt.

During the concept demonstration the Badger Explorer tool operated for an extended period of time. The tool drilled several meters, the cuttings were transported and separated inside the tool and then compacted at the rear end of the tool, forming a plug whilst operating in a closed cavity. The tool has been powered and controlled through a cable and the tool has not been visible during the drilling process.

The test has, as expected, shown that some functions need to be adjusted and redesigned to increase the operational reliability of the current prototype.

#### *Pre-commercial phase*

The activities that have taken place during the last quarter include work that is also of relevance for the upcoming pre-commercial phase. On completion of the prototype phase, the next step will comprise the manufacturing and testing of a pre-commercial 125 Demonstrator tool (125°C).



Work on sensors and logging packages has been initiated and the design work regarding high-specification electro motors is ongoing. Furthermore the development work on the 125°C hydraulic unit and general modelling work continues at BXPL's engineering department.

As reported in December 2009 the Research Council of Norway (RCN) has granted MNOK 4.9 to a BXPL project - "Drilling in a Closed Cavity near Pore Pressure (DCCPP)". This project will take course parallel to the main project of the pre-commercial phase. The DCCPP project will focus on modelling the interrelationship of all parameters affecting the down-hole performance of a Badger Explorer operation in a closed cavity. The results are expected to be of great significance for future versions of the tool. The DCCPP project will be funded independently from the main project and negotiations regarding financing are on-going with joint industry partners.

The pre-commercial phase will consist of several different projects:

- **Badger 125 Down hole Laboratory**
- **Badger 125 Test Facilities**
- **Badger 125 Advanced Technology**
- **DCCPP Project**
- **Badger 125 Demonstrator**

The Company's client partners ExxonMobil, Shell and Statoil will during the pre-commercial phase be involved to a higher degree. The client partners have through an extended client partner agreement secured first right of refusal to buy the full manufacturing capacity of Badger Explorer tools at market price for a period of three years from the time of commercialization.

#### **CALIDUS ENGINEERING LTD., CORNWALL, UK, 50% SUBSIDIARY**

Calidus Engineering Ltd. (Calidus), UK, is a well-reputed multi-discipline engineering company specialized in designing down hole equipment for harsh environments. In addition to modelling and engineering design services, Calidus runs a prototype based machine shop. Revenue comes from local and global clients from the oil industry, the geothermal industry as well as from the field of R&D. Calidus has become a vital supplier to Badger Explorer ASA.

Calidus's turnover during 1Q 2010 was MNOK 3.5 compared to MNOK 3.9 in 1Q 2009, out of which 63% (36% in 1Q 2009) were deliveries to Badger Explorer ASA.

The net result before tax (EBITDA) was MNOK 0.9 compared to MNOK 1.5 in 1Q the year before. Calidus' equity ratio is 93.6% and the cash position remains strong.

Business volume has been somewhat weak during the last quarter. However, in December 2009 a marketing campaign was performed in the Norwegian oil & gas market. The company is for the time being in the start-up phase of some major contracts.



## FINANCIAL STRENGTH AND INVESTOR RELATIONS

Badger Explorer ASA and its development program up to the commercial launch of Badger Explorer services are considered fully financed. In 2005 and 2007 the Company raised equity in total of MNOK 235. The extended partner agreements with the Company's industry client partners, ExxonMobil, Shell and Statoil, will include financial support in addition to valuable technical support. The partnerships and the Company's financial strength provide a unique position, which allows fully focusing on further technological development and the upcoming pre-commercial phase.

As of 31.03.2010 the Badger Explorer Group had a net equity of MNOK 197.0 (equity ratio of 91.4%), compared to MNOK 210.1 as of 31.03.2009.

The Company's activity level will be further increased in 2010.

### *Investor Relations Issues*

The value of the BXPL shares has considerably increased compared to 1Q 2009. The number of shareholders is currently 742, increased by 142 during the last twelve months. Norwegian entities and individuals hold 64.6% of the total number of outstanding shares. As of 31.03.2010 the 20 largest shareholders held 70.65% of the outstanding shares compared to 81% one year earlier.



## BADGER EXPLORER GROUP

The magnitude of the Badger Explorer Group operations comprises more than 50 people, including Calidus engineers and dedicated specialists from the Company's client partners, sub-vendors and various research institutes. The core staff of Badger Explorer ASA consists of 20 people. The Group is seeking more technical and operational staff and the number of employees will continue to increase.

## MAIN FIGURES

Revenues for 1Q 2010 amounted to kNOK 1 289, compared to kNOK 2 532 for 1Q 2009.

Operating expenses for 1Q 2010 amounted to kNOK 4 240, compared to kNOK 5 254 for 1Q 2009.

EBITDA for 1Q 2010 amounted to kNOK -2 951, compared to kNOK -2 722 for 1Q 2009.

During 1Q 2010 the total project development costs for the Badger Explorer Prototype amounted to kNOK 11 525 of which kNOK 10 179 were capitalized.

Application for "Skattefunn" has been filed and approved for 2010. Public grants amounted to MNOK 2.0 for 2009. All public grants were capitalised together with the project costs.

Earnings per share amounted to NOK -0.210 per share for 1Q 2010. Cash reserves as of 31.03.10 amount to MNOK 68.4. In addition the Company holds MNOK 59.1 in shares of a market based liquidity fund.



| <b>CONSOLIDATED SUMMARY</b> Unaudited figures in NOK 1000 | 1Q 2010 | 1Q 2009 | 31.03. 2010 | 31.03. 2009 |
|---|---------|---------|-------------|-------------|
| Revenues  | 1 289   | 2 532   | 1 289       | 2 532       |
| Operating expenses  | 4 240   | 5 254   | 4 240       | 5 254       |
| EBITDA  | -2 951  | -2 722  | -2 951      | -2 722      |
| Earnings per share (figures in NOK)                       | -0,210  | -0,113  | -0,210      | -0,113      |
| Projects development costs                                | 11 525  | 7 922   | 11 525      | 7 922       |
| Public grants for projects dev.                           | 108     | 0       | 108         | 0           |
| Cap. of dev. costs and public grants                      | 10 071  | 6 634   | 10 071      | 6 634       |

## OUTLOOK

The Company is very pleased having performed the successful demonstration of the Badger Explorer concept. The Badger Explorer idea was born in 1999 and the Company established in 2003. Comprehensive R&D, design and testing conducted by an excellent and skilled team has taken place for several years. The efforts of the team are remarkable. The prototype phase is about to be completed and the pre-commercial phase is commencing.

The Company recognizes that much R&D work remains before a reliable commercial version of the tool will be ready for commercialisation. Therefore the pre-commercial phase will consist of designing and developing the first commercial versions of the Badger Explorer tool.

The successful demonstration of the concept brings Badger Explorer ASA much closer to the goal of supplying a commercial service to its partners and the oil & gas market in general.

The pre-commercial development program with its defined projects will be launched in 2010. Client partners and sub-vendors will be important contributors. The Company will seek both public grants and client partner support for the further development work. The development work already undertaken by the Badger Explorer organization remains revolutionary and will form a sound basis for the further product development program.

On the basis of the solid experience in particular during 1Q 2010 and the overall progress made, Badger Explorer retains its optimistic view both on its operations and on the market, and anticipates further positive development this year and up to the commercial launch of BXPL services.

Stavanger, 29 April 2010  
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 Jåttåvågveien 7 - Building C, 4020 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 as of 31.12.2009. The financial statement has been prepared on an historical cost basis.

The Group's consolidated financial statement comprises Badger Explorer ASA (100%), Badger Plasma Technology as (100%) and Calidus Engineering Ltd. (50%). 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. Acquisitions of non-controlling interests are accounted for by using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

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 31.12.2009. 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 31.12.2009.

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 for fair value included in the consolidation are translated into NOK using exchange rate at the balance sheet date. The exchange differences arising from the translation are recorded against the equity.

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.

Cost relating to development are capitalised following criteria's are met in full

- the product or the process is clearly defined and the cost elements can be identified and measured reliably;
- the technical solution for the product has been demonstrated;
- the product or the process will be sold or used in the company's operations;
- the asset will generate future financial benefits; and
- sufficient technical, financial and other recourses for completing the project are present

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 from sale of engineering services is recognised on a monthly basis based on completed monthly time sheets completed by the employee at the rate agreed with the customer. 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.

The options granted in 2006 were during Q3 2009 replaced with new options. 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 replacement of options was treated as a cancellation and re-pricing under IFRS 2.

## CONSOLIDATED INCOME STATEMENT

| Unaudited figures in NOK 1000                                     | 1Q 2010       | 4Q 2009       | 1Q 2009       | Note    | 31.03. 2010   | 31.03. 2009   |
|---|---------------|---------------|---------------|---------|---------------|---------------|
| <b>Revenues</b>   |               |               |               |         |               |               |
| Other Income  | 1 289         | 2 087         | 2 532         | 4       | 1 289         | 2 532         |
| Public grants   | 108           | 1 977         | 0             | 1       | 108           | 0             |
| Capitalised public grants   | -108          | -1 977        | 0             | 2       | -108          | 0             |
| <b>Total Revenues</b>   | <b>1 289</b>  | <b>2 087</b>  | <b>2 532</b>  |         | <b>1 289</b>  | <b>2 532</b>  |
| <b>Operating Expenses</b>   |               |               |               |         |               |               |
| Cost of goods sold  | 176           | 663           | 92            | 13      | 176           | 92            |
| External services for dev. project                                | 6 143         | 5 298         | 4 317         | 4       | 6 143         | 4 317         |
| Salary  | 5 888         | 6 609         | 4 732         | 13      | 5 888         | 4 732         |
| Other Operating Expenses  | 2 213         | 3 818         | 2 748         | 4,10,13 | 2 213         | 2 748         |
| Capitalised development cost                                      | -10 180       | -8 259        | -6 634        | 3       | -10 180       | -6 634        |
| <b>Total Operating Expenses</b>                                   | <b>4 240</b>  | <b>8 129</b>  | <b>5 254</b>  |         | <b>4 240</b>  | <b>5 254</b>  |
| <b>EBITDA</b>   | <b>-2 951</b> | <b>-6 042</b> | <b>-2 722</b> |         | <b>-2 951</b> | <b>-2 722</b> |
| Depreciation  | 284           | 232           | 292           |         | 284           | 292           |
| <b>EBIT</b>   | <b>-3 234</b> | <b>-6 274</b> | <b>-3 014</b> |         | <b>-3 234</b> | <b>-3 014</b> |
| Net financial   | -254          | 1 467         | 1 626         | 11,12   | -254          | 1 626         |
| <b>EBT</b>  | <b>-3 488</b> | <b>-4 807</b> | <b>-1 388</b> |         | <b>-3 488</b> | <b>-1 388</b> |
| Tax   | 0             | -235          | 0             |         | 0             | 0             |
| <b>Net profit/loss from operations</b>                            | <b>-3 488</b> | <b>-5 042</b> | <b>-1 388</b> |         | <b>-3 488</b> | <b>-1 388</b> |
| Profit (loss) attributable to minority interests                  | 380           | 66            | 690           |         | 380           | 690           |
| <b>Profit (loss) attributable to equity holders of the parent</b> | <b>-3 868</b> | <b>-5 107</b> | <b>-2 078</b> | 9       | <b>-3 868</b> | <b>-2 078</b> |
| <b>Earnings per share</b>   | <b>-0,210</b> | <b>-0,278</b> | <b>-0,113</b> |         | <b>-0,210</b> | <b>-0,113</b> |
| <b>Earnings per share diluted</b>                                 | <b>-0,210</b> | <b>-0,278</b> | <b>-0,113</b> |         | <b>-0,210</b> | <b>-0,113</b> |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| Total comprehensive income                   | 31.03. 2010   | 31.03. 2009   | 31.12. 2009    |
|--|---------------|---------------|----------------|
| Unaudited figures in NOK 1000                |               |               |                |
| Profit (loss) for the year (period):         | -3 488        | -1 388        | -11 158        |
| Other comprehensive income                   |               |               |                |
| Translation differences                      | -402          | -704          | -1 149         |
| <b>Comprehensive income at end of period</b> | <b>-3 890</b> | <b>-2 092</b> | <b>-12 307</b> |

## Distribution of total comprehensive income

| Distribution of total comprehensive income | 31.03. 2010   | 31.03. 2009   | 31.12. 2009    |
|--|---------------|---------------|----------------|
| Unaudited figures in NOK 1000              |               |               |                |
| Equity holders of the parent               | -4 269        | -2 782        | -13 879        |
| Non-controlling interest                   | 380           | 690           | 1 572          |
|  | <b>-3 890</b> | <b>-2 092</b> | <b>-12 307</b> |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| ASSETS Unaudited figures in NOK 1000                        | 31.03. 2010        | 31.03. 2009        | Notes        | 31.12. 2009        |
|---|--------------------|--------------------|--------------|--------------------|
| <b>FIXED ASSETS</b>   |                    |                    |              |                    |
| Development costs   | 74 082             | 42 060             | 3            | 64 010             |
| Patent rights   | 387                | 387                |              | 387                |
| Goodwill  | 5 605              | 5 853              | 4            | 5 710              |
| <b>Total intangible assets</b>                              | <b>80 074</b>      | <b>48 300</b>      |              | <b>70 107</b>      |
| Machinery, fixtures, etc.                                   | 3 374              | 3 366              |              | 3 333              |
| <b>Total tangible assets</b>                                | <b>3 374</b>       | <b>3 366</b>       |              | <b>3 333</b>       |
| Bank bonds  | 0                  | 79 023             | 11           | 0                  |
| Investment in shares  | 59 058             | 0                  | 12           | 0                  |
| <b>Sum financial assets</b>                                 | <b>59 058</b>      | <b>79 023</b>      |              | <b>0</b>           |
| <b>TOTAL NON-CURRENT ASSETS</b>                             | <b>142 506</b>     | <b>130 689</b>     |              | <b>73 440</b>      |
| <b>CURRENT ASSETS</b>                                       |                    |                    |              |                    |
| Inventory   | 950                | 1 027              |              | 854                |
| <b>Sum Inventory</b>  | <b>950</b>         | <b>1 027</b>       |              | <b>854</b>         |
| Accounts receivable   | 973                | 968                | 4            | 1 520              |
| Other receivables   | 2 667              | 3 380              | 4            | 3 115              |
| <b>Total receivables</b>                                    | <b>3 640</b>       | <b>4 348</b>       |              | <b>4 635</b>       |
| Bank bonds  | 0                  | 0                  | 11           | 33 782             |
| <b>Total current financial assets</b>                       | <b>0</b>           | <b>0</b>           |              | <b>33 782</b>      |
| <b>Cash and cash equivalents</b>                            | <b>68 391</b>      | <b>92 381</b>      |              | <b>107 316</b>     |
| <b>TOTAL CURRENT ASSETS</b>                                 | <b>72 981</b>      | <b>97 756</b>      |              | <b>146 587</b>     |
| <b>TOTAL ASSETS</b>   | <b>215 486</b>     | <b>228 445</b>     |              | <b>220 027</b>     |
| <b>EQUITY AND LIABILITIES Unaudited figures in NOK 1000</b> | <b>31.03. 2010</b> | <b>31.03. 2009</b> | <b>Notes</b> | <b>31.12. 2009</b> |
| <b>EQUITY</b>   |                    |                    |              |                    |
| Share capital   | 2 305              | 2 305              | 4,5,10       | 2 305              |
| Share premium reserve                                       | 217 100            | 217 100            | 5            | 217 100            |
| Other paid in equity  | 1 329              | 276                | 4,6          | 946                |
| <b>Total paid in equity</b>                                 | <b>220 734</b>     | <b>219 680</b>     |              | <b>220 351</b>     |
| Other equity  | -28 768            | -13 402            |              | -24 499            |
| <b>Total retained earnings</b>                              | <b>-28 768</b>     | <b>-13 402</b>     |              | <b>-24 499</b>     |
| <b>Minority Interest</b>                                    | <b>5 065</b>       | <b>3 803</b>       |              | <b>4 685</b>       |
| <b>TOTAL EQUITY</b>   | <b>197 030</b>     | <b>210 081</b>     |              | <b>200 536</b>     |
| <b>LIABILITIES</b>  |                    |                    |              |                    |
| Capitalised grants  | 13 855             | 13 855             | 7            | 13 855             |
| <b>Total long term liabilities</b>                          | <b>13 855</b>      | <b>13 855</b>      |              | <b>13 855</b>      |
| Accounts payable  | 2 076              | 2 608              | 4,10         | 3 376              |
| Public duties payable                                       | 89                 | -192               |              | 222                |
| Taxes payable   | 196                | 105                |              | 202                |
| Other short term liabilities                                | 2 242              | 1 988              |              | 1 835              |
| <b>Total short term liabilities</b>                         | <b>4 601</b>       | <b>4 509</b>       |              | <b>5 635</b>       |
| <b>TOTAL LIABILITIES</b>                                    | <b>18 456</b>      | <b>18 364</b>      |              | <b>19 491</b>      |
| <b>TOTAL EQUITY AND LIABILITIES</b>                         | <b>215 486</b>     | <b>228 445</b>     |              | <b>220 027</b>     |

## CONSOLIDATED STATEMENT OF CASH FLOW

| Unaudited figures in NOK 1000                      | 31.03. 2010    | 31.03. 2009    | Note | 31.12. 2009    |
|--|----------------|----------------|------|----------------|
| Contribution from operations                       | -2 947         | -3 399         |      | -16 808        |
| Change in accounts receivable and accounts payable | -753           | 942            |      | 1 158          |
| Change in other receivables and payables           | 998            | 2 510          |      | 4 189          |
| <b>Net cash flow from operating activities</b>     | <b>-2 702</b>  | <b>53</b>      |      | <b>-11 462</b> |
| Investments in fixed assets                        | -324           | -232           |      | -1 055         |
| Investment in/sale of bank bonds                   | 33 782         | -39 650        |      | 5 591          |
| Investment in shares                               | -59 058        | 0              |      | 0              |
| Capitalisation of development cost                 | -10 180        | -6 634         |      | -30 561        |
| <b>Net cash flow from investment activities</b>    | <b>-35 780</b> | <b>-46 516</b> |      | <b>-26 025</b> |
| Grants from Skattefunn and RCN                     | 108            | 0              |      | 1 977          |
| Net financials                                     | -254           | 1 626          |      | 5 909          |
| <b>Net cash flow from financing activities</b>     | <b>-145</b>    | <b>1 626</b>   |      | <b>7 886</b>   |
| <b>Total net changes in cash flow</b>              | <b>-38 628</b> | <b>-44 837</b> |      | <b>-29 601</b> |
| Net foreign differences                            | -297           | -355           |      | -656           |
| Cash balance at beginning of period                | 107 316        | 137 573        |      | 137 573        |
| <b>Cash and cash equivalents at end of period</b>  | <b>68 391</b>  | <b>92 381</b>  |      | <b>107 316</b> |
| Net result   | -3 868         | -2 078         |      | -12 730        |
| Employee options                                   | 383            | 13             |      | 684            |
| Depreciation                                       | 284            | 292            |      | 1 148          |
| Financial items                                    | 254            | -1 626         |      | -5 909         |
| <b>Total contribution from operations</b>          | <b>-2 947</b>  | <b>-3 399</b>  |      | <b>-16 808</b> |

## CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

| Unaudited figures in NOK 1000  | 31.03. 2010    | 31.03. 2009    | Note | 31.12. 2009    |
|--------------------------------|----------------|----------------|------|----------------|
| Equity at beginning of period  | 200 536        | 212 160        |      | 212 160        |
| Total comprehensive income     | -3 890         | -2 092         |      | -12 307        |
| Employee options               | 383            | 13             |      | 684            |
| <b>Equity at end of period</b> | <b>197 030</b> | <b>210 081</b> |      | <b>200 536</b> |

## 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 was supported by "Skattefunn" in 2009.
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 1 346 per 31.03.2010.
4. The 100% owned subsidiary, Badger Plasma Technology AS and the 50% 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. The total number of shares per 31.03.2010 is 18 439 040 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 is accepted and effective from 15.09.2009, includes all employees and grants a total of 406 750 share options at a strike of NOK 10. 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 personnel costs and on the balance sheet under other paid in equity. 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 repricing under IFRS 2. The options were "in the money" per 31.03.2010.
7. The Group has received contribution from the three industry partners amounting to a total of NOK 13 855 200. This contribution shall be repaid to the partners by paying 5% of all technology related sales in the future. This royalty is limited to 150% of received contribution.
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.

| <b>31.03.2010 - Business segments</b> | Badger   | Badger | Engineer- |         | Elimin- |         |
|---------------------------------------|----------|--------|-----------|---------|---------|---------|
| Unaudited figures in NOK 1000         | Explorer | Plasma | ing       | Other   | ation   | Total   |
| Total revenue                         | 0        | 0      | 3 481     | 0       | -2 192  | 1 289   |
| Segment profit (loss)                 | -1 346   | 0      | 380       | -2 902  | 0       | -3 868  |
| Total assets                          | 70 268   | 5 899  | 18 400    | 130 836 | -9 916  | 215 486 |

| <b>31.03.2009 - Business segments</b> | Badger   | Badger | Engineer- |         | Elimin- |         |
|---------------------------------------|----------|--------|-----------|---------|---------|---------|
| Unaudited figures in NOK 1000         | Explorer | Plasma | ing       | Other   | ation   | Total   |
| Total revenue                         | 0        | 0      | 3 939     | 21      | -1 428  | 2 532   |
| Segment profit (loss)                 | -1 288   | 0      | 690       | -1 481  | 0       | -2 078  |
| Total assets                          | 37 131   | 6 573  | 16 900    | 176 965 | -9 124  | 228 445 |

| <b>1Q 2010 - Business segments</b> | Badger   | Badger | Engineer- |        | Elimin- |        |
|------------------------------------|----------|--------|-----------|--------|---------|--------|
| Unaudited figures in NOK 1000      | Explorer | Plasma | ing       | Other  | ation   | Total  |
| Total revenue                      | 0        | 0      | 3 481     | 0      | -2 192  | 1 289  |
| Segment profit (loss)              | -1 346   | 0      | 380       | -2 902 | 0       | -3 868 |

| <b>1Q 2009 - Business segments</b> | Badger   | Badger | Engineer- |        | Elimin- |        |
|------------------------------------|----------|--------|-----------|--------|---------|--------|
| Unaudited figures in NOK 1000      | Explorer | Plasma | ing       | Other  | ation   | Total  |
| Total revenue                      | 0        | 0      | 3 939     | 21     | -1 428  | 2 532  |
| Segment profit (loss)              | -1 288   | 0      | 690       | -1 481 | 0       | -2 078 |

| Transaction with shareholders | 31.03.2010 | 31.03.2009 |
|-------------------------------|------------|------------|
| Accounts payable*             | 933        | 757        |
| Purchased services*           | 2 143      | 1 440      |

\*The Company has purchased engineering- and production services from Calidus Engineering Ltd. in which Badger Explorer ASA owns 50% and Nigel Halladay owns 50% of the shares. Nigel Halladay also owns 33 000 shares in Badger Explorer ASA.

| Shares held by members of the board and Management group               | 31.03.2010       | 31.03.2009       |
|--|------------------|------------------|
| Convexa Capital IV AS (Board Director - Bjørge Gretland)*              | 3 200 780        | 3 300 780        |
| Ahlqvist Invest AS (Chairman of the Board - Rolf E. Ahlqvist)          | 465 407          | 454 407          |
| Dalvin Rådgivning AS (CFO - Gunnar Dolven)                             | 301 872          | 301 872          |
| CEO - Kjell Erik Drevdal   | 222 600          | 222 600          |
| Convexa AS (Board Director - Bjørge Gretland)                          | 100 000          | -                |
| Nilsholmen Investering AS (Sr.VP Bus. Dev. & Strategy - Kjell Markman) | 149 222          | 149 222          |
| Nilsholmen AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)            | 80 200           | 80 200           |
| Invest OK AS (Board Director - Kristine Holm)                          | 15 000           | 15 000           |
| 5K International (CEO - Kjell Erik Drevdal)                            | 10 000           | 10 000           |
| Chevni AS (Board Director - Christian Bull Eriksson)                   | 6 000            | 6 000            |
| Board Director - Tone Kvåle  | 5 000            | -                |
| Mng. Hr, Economy & Adm. - Hege Furland                                 | 2 858            | 2 858            |
| CTO - Erling Woods   | 1 000            | 1 000            |
| <b>Ordinary shares</b>   | <b>4 559 939</b> | <b>4 543 939</b> |
| % of total shares  | 24,7 %           | 24,6 %           |

\*Bjørge Gretland does not have decisive influence in Convexa Capital IV AS.

#### 11. Bank bonds

All of the Company's bank bonds were sold in January 2010.

#### 12. Investment in shares

The Company owns 54 045 shares of First Norway Alpha KL IV-IA, a market based liquidity fund, to a nominal value of MNOK 60.0. The fund have underlying exposure to the Norwegian money market with entire notional amount (overnight NIBOR). The value of the shares are monitored on a daily basis. The shares are not under any contractual obligation unless for a 3 days notice for settlement when selling the shares. The shares are classified under IAS39 as "financial assets at fair value through profit and loss" and are carried at market value.

#### 13. Intercompany sales and purchases has previously been eliminated towards salary and other operating expenses. Elimination is now changed to reflect the material consumption by eliminating these costs towards Cost of Goods sold (COGS). The reallocation effect is:

| Effect for 2009 | Salary | Other Opr. Exp. | COGS |
|-----------------|--------|-----------------|------|
| 1Q              | 395    | 49              | -444 |

**Badger Explorer ASA**  
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