



**BADGER**<sup>®</sup>  
EXPLORER



**QUARTERLY REPORT**

**4. QUARTER 2006**

## BADGER EXPLORER PROTOTYPE - DEVELOPMENT

During 2006 full scale experiments have been performed of all primary Badger functions and with satisfactory results.

These primary functions comprise:

- Electro motor driven rotary drilling module
- Circulation system for cooling and transport of the drill cuttings
- Borehole expansion module
- Cuttings slurry feed and compaction module

A result worthy of particular mention is the high degree of drill cuttings compaction obtained during experiments and which is also supported by theoretical studies.

The focus in the fourth quarter has been to finalize the design of the main Badger modules and initiate fabrication of a full scale system prototype. The latter has proven to be a challenge for the project due to the long delivery times currently being quoted for manufacturing services and products and which is related to the activity level in our industry sector. Badger Explorer is attempting to cooperate closely with key suppliers in order to minimize the impact on the project schedule.

The current focus is to assemble an integrated system prototype and execute a system test in the 1st quarter of 2007. A test jig to support this full scale test is in the final stages of fabrication and appropriate test facilities have been sourced.

## ORGANIZATION

The Badger Explorer Project Organization consists of more than 30 people of which 8 are full time employed in Badger Explorer ASA. The Company's main partners, ExxonMobil, Shell and Statoil, together with several research institutions, universities and industrial partners are closely involved in the Prototype Development Project.

Sick leave in the Company is low, per 31.12.2006: 0.6%

The recruitment process to hire senior personnel is progressing according to plan and Peder Pedersen will start with the Company 2<sup>nd</sup> of January 2007.

## MAIN FIGURES

Revenues for the fourth quarter 2006 amounted to kNOK 58 and to kNOK 298 as of 31<sup>st</sup> of December 2006.

Operating expenses for the fourth quarter 2006 amounted to kNOK 1 035 and to kNOK 4 923 as of 31<sup>st</sup> of December 2006.

EBITDA for the fourth quarter 2006 amounted to kNOK -978 and to kNOK -4 624 as of 31<sup>st</sup> of December 2006.

Project costs for the Badger Explorer Prototype for the fourth quarter 2006 amounted to kNOK 4 039 of which kNOK 3 321 was capitalized and to 10 015 as of 31<sup>st</sup> of December 2006 of which kNOK 7 934 was capitalized.

Public grants for the Badger Explorer Prototype for the fourth quarter 2006 amounted to kNOK 2 014 and to kNOK 4 175 as of 31<sup>st</sup> of December 2006. All public grants are capitalized together with the project costs.

Earnings per share for the fourth quarter 2006 amounted to NOK -0,05 per share and to NOK -0,44 as of 31<sup>st</sup> of December 2006.

Cash reserves per 31.12.2006 are MNOK 62,8.

Summary (unaudited figures in NOK 1000)	4. Quarter 2005	4. Quarter 2006	31.12. 2005	31.12. 2006
Revenues	174	58	174	298
Operating expenses	-1 541	-1 035	-2 359	-4 923
EBITDA	-1 367	-978	-2 185	-4 624
Earnings per share (figures in NOK)	-0,19	-0,05	-0,57	-0,44
Badger Explorer Prototype development costs	1 205	4 039	4 997	10 015
Public grants for the Badger Explorer Prototype development	44	2 014	2 539	4 175
Capitalization of development costs and public grants	1 161	1 307	2 459	3 759

## OUTLOOK

The Company is entering into a period with continuously high and increasing test activities. Preparation and mobilization of test area for full scale onshore system function testing with the Test Jig is moved to 1Q -07.

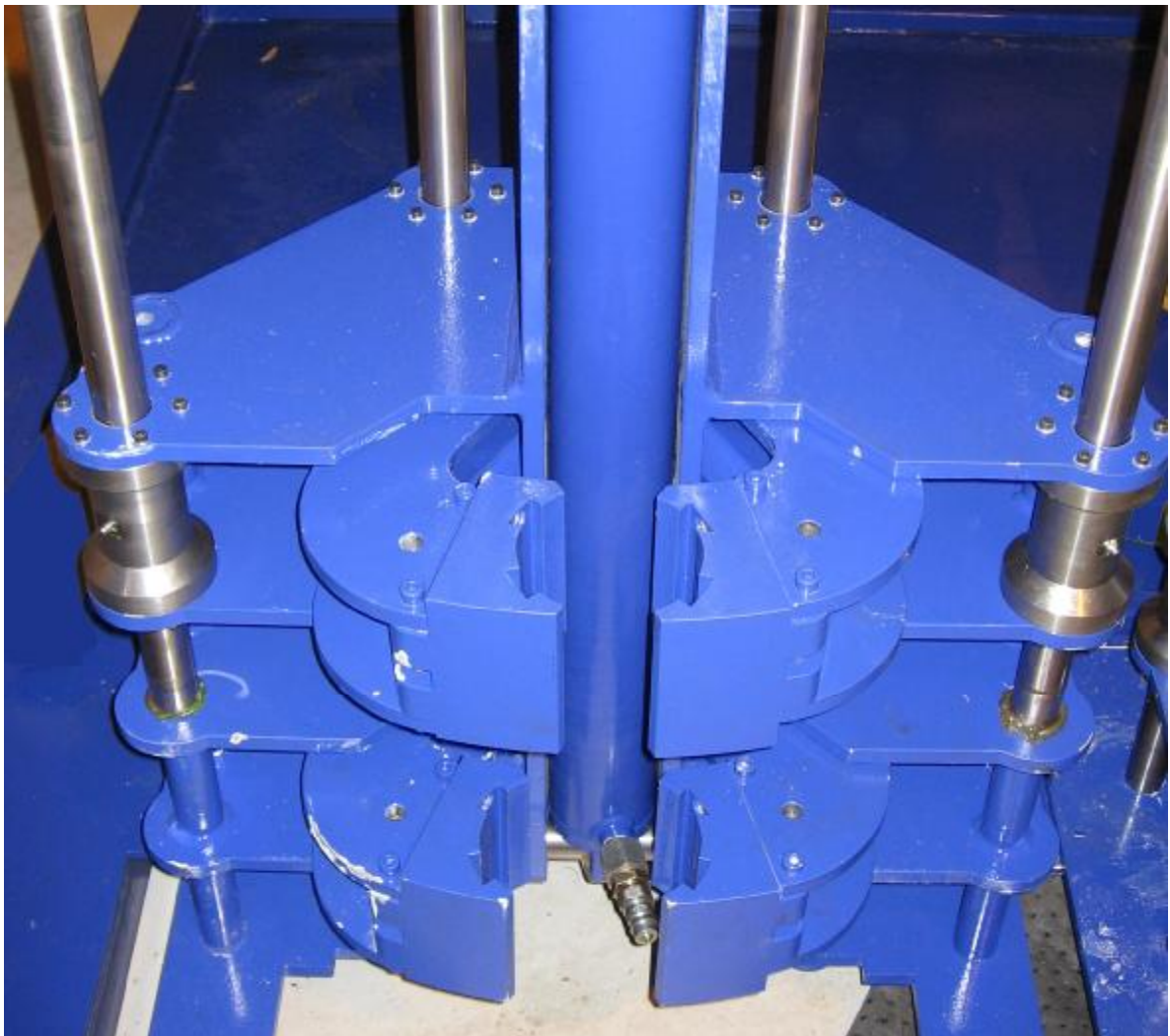
A first simple Badger Explorer prototype will be tested in 1Q 2007. The system function test will be performed onshore in full scale at the Rosenberg Yard facilities in Stavanger.

The target for the first commercial Badger Explorer is unchanged, 2H 2008.

The IPO process has started and listing of Badger Explorer ASA at the Oslo Stock Exchange (Oslo Børs) is planned for 2Q 2007.

The Plasma Channel Drilling (PCD) technology demonstration project will commence in January 2007 and has a planned duration of 18 months. Kim Røed has been appointed project manager for the PCD project.

Stavanger, 15<sup>th</sup> of February 2007  
The board of directors  
Badger Explorer ASA



Test jig

## ACCOUNTING POLICIES

Badger Explorer ASA has from and including 3Q 2006 prepared the financial statement in full accordance with International Financial Reporting Standards (IFRS) and the financial statement has also been prepared in accordance with the International Accounting Standard (IAS) 34.

Prior quarter financial statements and opening balances have been translated to comply with IFRS and IAS 34 for comparative purposes.

The effect of transfer from NGAAP to IFRS for the applicable periods is presented on page 7.

## FINANCIAL STATUS

P&L Summary	4. Quarter	4. Quarter	31.12.	31.12.	Note
Unaudited figures in NOK 1000	2005	2006	2005	2006	
<b>Revenues</b>					
Other Income	174	58	174	298	
Public grants	44	2 014	2 539	4 175	1
Capitalized public grants	-44	-2 014	-2 539	-4 175	2
<b>Total Revenues</b>	<b>174</b>	<b>58</b>	<b>174</b>	<b>298</b>	
<b>Operating Expenses</b>					
External services for dev. project	-834	-2 028	-4 616	-4 187	
Salary	-297	-1 462	-336	-4 320	
Other Operating Expenses	-1 615	-867	-2 404	-4 349	
Capitalized project costs	1 205	3 321	4 997	7 934	3
<b>Total Operating Expenses</b>	<b>-1 541</b>	<b>-1 035</b>	<b>-2 359</b>	<b>-4 923</b>	
<b>EBITDA</b>	<b>-1 367</b>	<b>-978</b>	<b>-2 185</b>	<b>-4 624</b>	
Depreciation	26	-129	-53	-335	
<b>EBIT</b>	<b>-1 341</b>	<b>-1 106</b>	<b>-2 237</b>	<b>-4 960</b>	
Net financial items	219	756	224	1 992	
<b>EBT</b>	<b>-1 122</b>	<b>-350</b>	<b>-2 013</b>	<b>-2 968</b>	
Tax	0	0	0	0	
<b>Net profit (loss)</b>	<b>-1 122</b>	<b>-350</b>	<b>-2 013</b>	<b>-2 968</b>	
<b>Earnings per share</b>	<b>-0,19</b>	<b>-0,05</b>	<b>-0,57</b>	<b>-0,44</b>	

1. The Badger Explorer Prototype project is supported by the Norwegian Research Counsel and "Skattefunn" with a percentage of the total project cost and the calculated amount is accrued consecutively.
2. The cost for the development of Badger Explorer Prototype project is capitalized, subsequently also the grants.
3. Capitalized project development costs in accordance with IFRS standard. Additional project cost not capitalized amounts to 718 kNOK for the fourth quarter and 2 081 kNOK per 31.12.2006

Balance sheet	31.12. 2006	31.12. 2005	Note
Unaudited figures in NOK 1000			
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
Development costs	6 217	2 459	1
Patent rights	387	387	
Deferred tax benefit	0	0	
<b>Sum intangible assets</b>	<b>6 604</b>	<b>2 845</b>	
Machinery, furniture and fixtures	838	358	
<b>Sum other fixed assets</b>	<b>838</b>	<b>358</b>	
<b>TOTAL FIXED ASSETS</b>	<b>7 442</b>	<b>3 203</b>	
<b>CURRENT ASSETS</b>			
Accounts receivable - customers	2 290	2 100	
Other accounts receivable	2 973	1 083	
<b>Sum accounts receivable</b>	<b>5 264</b>	<b>3 183</b>	
Cash	62 761	70 942	
<b>TOTAL CURRENT ASSETS</b>	<b>68 024</b>	<b>74 125</b>	
<b>TOTAL ASSETS</b>	<b>75 467</b>	<b>77 328</b>	
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	1 680	1 680	
Share premium account	68 473	68 473	
<b>Sum paid in equity</b>	<b>70 153</b>	<b>70 153</b>	
Other equity	-5 141	-2 173	2
<b>Sum Earned equity</b>	<b>-5 141</b>	<b>-2 173</b>	
<b>TOTAL EQUITY</b>	<b>65 013</b>	<b>67 981</b>	
<b>LIABILITIES</b>			
Contribution from Partners	7 909	6 120	
<b>Sum long term liabilities</b>	<b>7 909</b>	<b>6 120</b>	
Accounts payable	1 577	909	
Payables to public authorities	427	989	
Other short term liabilities	540	1 330	
<b>Sum short term liabilities</b>	<b>2 545</b>	<b>3 228</b>	
<b>TOTAL LIABILITIES</b>	<b>10 454</b>	<b>9 348</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>75 467</b>	<b>77 328</b>	

- Capitalized project development costs in accordance with IFRS standard. Additional project cost not capitalized amounts to 2 081 kNOK per 31.12.2006.
- Reversed capitalized deferred tax benefit to comply with IFRS standard. The 31.12.2005 balance has been translated accordingly.

Cash flow	31.12. 2006	31.12. 2005
Unaudited figures in NOK 1000		
Net cash from operating activities	-4 278	3 660
Net cash from investments	-3 904	-2 816
Net cash from financing	0	69 663
<b>Net cash flow</b>	<b>-8 182</b>	<b>70 507</b>
Cash balance at beginning of period	70 942	435
<b>Cash balance at end of period</b>	<b>62 761</b>	<b>70 942</b>

Equity reconciliation	30.09. 2006	30.09. 2005
Unaudited figures in NOK 1000		
Equity at beginning of period	67 981	330
Net profit (loss)	-2 968	-2 013
Share issue	0	69 663
<b>Equity at end of period</b>	<b>65 013</b>	<b>67 981</b>

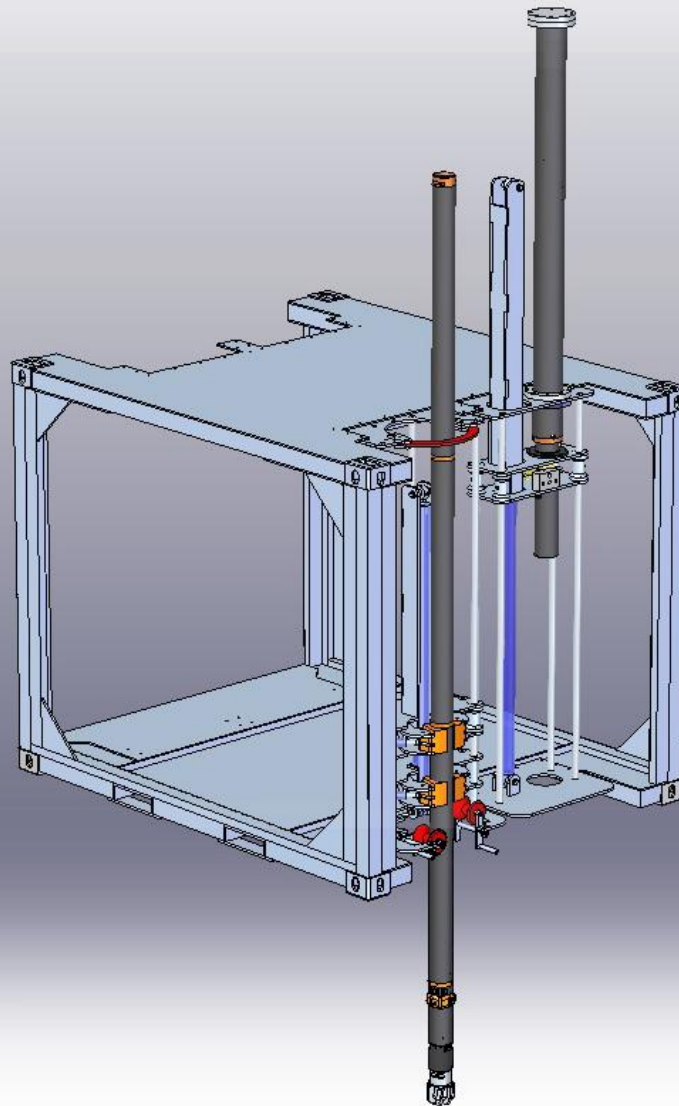
## MAJOR SHAREHOLDERS

SHARES	%	NAME
1 335 390	19.87	CONVEXA CAPITAL IV AS
1 248 669	18.58	IRIS-FORSKNINGSINVEST
1 044 958	15.55	PV INVEST 1 AS
459 000	6.83	BANK OF NEW YORK, BR BNY GCM CLIENT ACC.
364 300	5.42	ODIN OFFSHORE ODIN FORVALTNING AS
295 767	4.40	HOLBERG NORDEN V/HOLBERG FONDSFORVA
229 400	3.41	DEUTSCHE BANK AG LONDON S/A PRIME BROKERAGE
190 095	2.83	STOKKA SIGMUND
140 033	2.08	SEB ENSKILDA ASA EGENHANDELSKONTO
136 243	2.03	OLYMPIA HOLDING AS
1 275 665	18.98	OTHERS
<b>6 719 520</b>	<b>100.00</b>	<b>TOTAL</b>

## NGAAP VS. IFRS

P&L Summary	4. quarter 2005				31.12.2005			
	NGAAP	Changes	Note	IFRS	NGAAP	Changes	Note	IFRS
<b>Revenues</b>								
Other Income	-3 401	3 575	1,2	174	174		1,2	174
Public grants	2 539	-2 495	2	44	2 539		2	2 539
Activated public grants	-2 539	2 495	2	-44	-2 539		2	-2 539
<b>Total Revenues</b>	<b>-3 401</b>	<b>3 575</b>		<b>174</b>	<b>174</b>			<b>174</b>
<b>Operating Expenses</b>								
Ext. Serv. for dev. Proj.	-834	0		-834	-4 616			-4 616
Salary	-297	0		-297	-336			-336
Depreciation	26	0		26	-53			-53
Other Operating Expenses	-1 615	0		-1 615	-2 404			-2 404
Activated project costs	4 997	-3 792	3	1 205	4 997		3	4 997
<b>Total Operating Expenses</b>	<b>2 278</b>	<b>-3 792</b>		<b>-1 515</b>	<b>-2 411</b>			<b>-2 411</b>
<b>EBIT</b>	<b>-1 123</b>	<b>-218</b>		<b>-1 341</b>	<b>-2 237</b>	<b>0</b>		<b>-2 237</b>
Net financials	219	0		219	224			224
<b>EBT</b>	<b>-904</b>	<b>-218</b>		<b>-1 122</b>	<b>-2 013</b>	<b>0</b>		<b>-2 013</b>
Tax	1 350	-1 350	4	0	2 331	-2 331	4	0
<b>Net profit</b>	<b>446</b>	<b>-1 567</b>		<b>-1 122</b>	<b>318</b>	<b>-2 331</b>		<b>-2 013</b>
<b>Balance sheet</b>								
<b>ASSETS</b>								
<b>FIXED ASSETS</b>								
Development costs					2 459			2 459
Patent rights					387			387
Deferred tax benefit					2 376	-2 376	4	0
<b>Sum intangible assets</b>					<b>5 221</b>	<b>-2 376</b>		<b>2 845</b>
Mach. furniture and fixtures					358			358
<b>Sum other fixed assets</b>					<b>358</b>			<b>358</b>
<b>TOTAL FIXED ASSETS</b>					<b>5 579</b>	<b>-2 376</b>		<b>3 203</b>
<b>CURRENT ASSETS</b>								
Acc. receivable - customers					2 100			2 100
Other accounts receivable					1 083			1 083
<b>Sum accounts receivable</b>					<b>3 183</b>			<b>3 183</b>
Cash					70 942			70 942
<b>TOTAL CURRENT ASSETS</b>					<b>74 125</b>			<b>74 125</b>
<b>TOTAL ASSETS</b>					<b>79 703</b>	<b>-2 376</b>		<b>77 328</b>
<b>EQUITY AND LIABILITIES</b>								
<b>EQUITY</b>								
Share capital					1 680			1 680
Share premium account					68 473			68 473
<b>Sum paid in equity</b>					<b>70 153</b>			<b>70 153</b>
Other equity					203	-2 376	4	-2 173
<b>Sum Earned equity</b>					<b>203</b>	<b>-2 376</b>		<b>-2 173</b>
<b>TOTAL EQUITY</b>					<b>70 356</b>	<b>-2 376</b>		<b>67 981</b>
<b>LIABILITIES</b>								
Contribution from Partners					6 120			6 120
<b>Sum long term liabilities</b>					<b>6 120</b>			<b>6 120</b>
Accounts payable					908			908
Payables to public auth.					989			989
Other short term liabilities					1 330			1 330
<b>Sum short term liabilities</b>					<b>3 227</b>			<b>3 227</b>
<b>TOTAL LIABILITIES</b>					<b>9 347</b>			<b>9 347</b>
<b>TOTAL EQUITY AND LIAB.</b>					<b>79 703</b>	<b>-2 376</b>		<b>77 328</b>

1. Reversed funding from Exxon, Shell and Statoil entered as income. Capitalized
2. Capitalized public grants.
3. Capitalized development costs.
4. Reversed capitalized deferred tax benefit



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