



BADGER
EXPLORER



Q4 2013 Quarterly Report

HIGHLIGHTS Q4 2013

- Activities at Badger Explorer ASA (BXPL) through Q4 2013:
- Delivery of Milestone 3 and start on Milestone 4 of the Badger Explorer Demonstrator Program
- Secure funding of the HPHT Ultrasonic project
- Define the framework for the next development phase of the Badger technology, the Badger Explorer Development Program
- Continue discussions with the partners regarding scope of work and funding of the Development Program
- Continue discussions regarding participation in the Development Program with new potential partner
- Outline the long term Field testing and the Field Pilot Program

The main technical activities are discussed in more details below.

The cash position at BXPL was 24.9 MNOK as of 31st December 2013, compared to 17.6 MNOK as of 31st December 2012. The approval of Milestone 3 on 29th October released 15.2 MNOK of partner funding in Q4 2013.

Furthermore, the delivery of Milestones 3 and 4 represents a significant risk reduction for the Badger Explorer technology.

STATUS OF THE BADGER EXPLORER DEMONSTRATOR PROGRAM

The goal for the Badger Explorer Demonstrator Program is to design and manufacture a tool capable of drilling to a depth of 100 meters by year end 2014. The tool shall also demonstrate the ability to build and compact an adequate plug, sealing off the wellbore behind the tool. The Demonstrator Program is milestone driven and Milestone 3 (all Badger tool modules ready for testing) was delivered on time and approved by the Steering Committee on 29th October 2013.

After the reporting period, on 29th January 2014 BXPL delivered Milestone 4 of the Demonstrator Program. Milestone 4 included testing of the following individual modules:

- Drilling module
- Transport system
- Compaction module
- Hydraulic Power Unit (HPU) (both the Pressure Generation Sub (PGS) and the Local Hydraulic Unit (LHU)).
- Install and test pressure and temperature sensors in tool.

The Milestone 4 module tests were executed in two stages;

- Module physical test:

The initial test verified the basic functionality of each module.

The test was performed in a workshop environment, and qualifies the module for Module process testing.

- Module process test:

Tested each module's ability to meet the specifications.

Milestone 5 will be a horizontal function test of the complete tool which will be performed in the BXPL facilities at Forus during Q3 2014.

Milestone 6 will be the final test of the tool where the capability to drill to a depth of 100 meters will be demonstrated. This test will most likely be performed at the IRIS test rig on Ullandhaug during Q4 2014 and will conclude the Badger Explorer Demonstrator Program.

All BXPL design, manufacturing and testing procedures are based on DNV Recommended Practice DNV-RP-A203.

THE BADGER EXPLORER DEVELOPMENT PROGRAM

During the latest part of the Demonstrator Program, BXPL has identified a few technical challenges. Along with any further challenges identified during the remaining part of the Demonstrator Program, they will all be addressed in the R&D projects and later integrated with the scope of work of the Badger Explorer Development Program.



The Badger Demonstrator tool will be used to further identify and mitigate technology risks, to better understand how the overall system works and to gain hands on operational experience with the tool.

The goal of the Development Program is to design and manufacture a third generation Badger tool, incorporating all lessons learned from the Demonstrator Program including the outcome from the on going R&D activities. The Development Program will be launched late 2014 and run through 2017. The plan is to manufacture two Badger tools during the Development Program, run the first Field Test in 2015 and the second in 2016. These Field Tests will be burial tests without recovery of the tools. A minimum of two Field Pilots are scheduled to follow the Field Tests as described in the Test Plan below.

BXPL has initiated discussions with the current partners, and potential additional partners regarding how the development of the Badger technology can be accelerated further, and how funding for the Development Program and the Field Pilot Program can be achieved. Definition of scope of work, timeline and budget are essential for these discussions.

THE FIELD TEST AND FIELD PILOT PROGRAM

In parallel with the technical development activities, discussions continue with our partners regarding the options for initial Field Tests followed by early Field Pilots. The first Field Tests will be conducted locally, to minimize the time required and costs incurred, while nonetheless addressing conditions that are likely to be encountered in various locations irrespective of the underlying target reservoir.

In order to reduce the time to commercialization, BXPL will outline a Test Program in co-operation with our partners. The Test Program aims at qualifying the Badger Explorer tool for commercial use:

- Field Test A: Onshore. Goal: Min 200 meters, limited or no data acquisition package, part of the Development Program.
- Field Test B: Onshore. Goal: Min 400 meters, limited data acquisition package, part of the Development Program.
- Field Pilot A: On or Offshore. Goal: Min 500 meters, data acquisition package as per operator's requirement, separate funding.
- Field Pilot B: On or Offshore. Goal: Min 800 meters, data acquisition package as per operator's requirement, separate funding.

Note: the depths above are purely indicative.

R&D ACTIVITIES

During the execution of the Badger Explorer Demonstrator Program the project team has identified several technical challenges which are addressed in separate R&D projects.

These technical areas are:

- Tool locomotion and friction aspects
- Utilizing ultrasonic technology to
 - reduce the friction between the Badger tool and the formation
 - improve compaction and drilling performance
 - Improve cuttings transportation
- Optimization of drill bit design

The Ultrasonic project

The Research Council of Norway (RCN), who is responsible for the Petromaks R&D grant scheme, has awarded BXPL a grant of 13.2 MNOK over three years for the Ultrasonic project (2014-2016). The grant will cover 50% of the total project costs.

The project aims at developing a HPHT ultrasonic transducer for various Badger applications. The transducers will reduce the friction between the tool and the formation as well as improve the compaction process, the effectiveness of the cuttings transport and the drilling performance. In a series of small-scale tests utilizing the ultrasonic technology, BXPL has achieved encouraging results.

The Drill bit optimization project

BXPL has designed and manufactured a purpose built, self-cleaning drill bit for the Badger Explorer. An arrangement inside the bit is used to clean cuttings from the bit, actively feeding the cuttings to the transport system (patent applied for).

Preliminary tests of a first generation of the drill bit are very promising and a second generation prototype will be tested in early 2014. The technical results of the R&D activities will be implemented in the Badger tool as soon as possible.

FINANCIALS

Investor Relations

Badger Explorer ASA had 785 shareholders on 31st December 2013. Norwegian entities and individuals held 63.8% of the outstanding shares and the 20 largest shareholders held 71.2% of the outstanding shares.

Badger Explorer ASA

The staff of Badger Explorer ASA consisted of 13 full-time employees as of 31st December 2013 compared to 19 employees as of 31st December 2012. Some of the roles previously held by full-time employees are currently fulfilled by consultants and contractors.

Main Figures

Revenues for Q4 2013 were 0.00 kNOK and 70 kNOK as of 31st December 2013, compared to 0.43 kNOK for Q4 2012 and 365 kNOK as of 31st December 2012. Operating expenses for Q4 2013 were 5,131 kNOK and 19,105 kNOK as of 31st December 2013, compared to 3,577 kNOK for Q4 2012 and 18,256 kNOK as of 31st December 2012. EBITDA for Q4 2013 was -5,131 kNOK and -19,036 kNOK as of 31st December 2013, compared to -3,534 kNOK for Q4 2012 and -17,891 as of 31st December 2012.

Total development costs of the Badger Explorer project in Q4 2013 were 11,414 kNOK, of which 10,348 kNOK was capitalized. As of 31st December 2013, development costs were 34,791 kNOK, of which 31,523 kNOK was capitalized. Total development costs of the Badger Explorer project in Q4 2012 were 6,940 kNOK, of which 6,124 kNOK was capitalized and as of 31st December 2012 development costs were 19,976 kNOK, of which 17,149 kNOK was capitalized.

Capitalized public grants for the Badger Explorer project were -4,808 kNOK for Q4 2013 and -22,375 kNOK as of 31st December 2013, compared to 101 kNOK for Q4 2012 and -2,843 kNOK as of 31st December 2012. All public grants are booked as deductions to the capitalized project costs. Earnings per share amounted to -0.33 NOK per share for Q4 2013 and -1.31 NOK as of 31st December 2013, compared to -0.28 NOK per share for Q4 2012 and -1.10 NOK per share as of 31st December 2012.

As of 31st December 2013, Badger Explorer ASA had a net equity of 101.6 MNOK (equity ratio of 61.1%) compared to 127.1 MNOK as of 31st December 2012 (75.5%).

CONSOLIDATED SUMMARY (Unaudited figures in NOK 1000)	Quarters			Year end	
	Q4 2013	Q3 2013	Q4 2012	31.12.2013	31.12.2012
Revenues	0	0	43	70	365
Operating expenses	5 131	2 358	3 577	19 105	18 256
EBITDA	-5 131	-2 358	-3 534	-19 036	-17 891
Earnings per share (figures in NOK)	-0.33	-0.25	-0.28	-1.31	-1.10
Projects development costs	11 414	9 520	6 940	34 791	19 976
Public grants for projects dev.	4 808	3 987	-101	22 375	2 843
Cap. of dev. costs and public grants	5 540	4 770	6 225	9 148	14 306



Net cash flow arising from the operating activities in the continuing operations for Q4 2013 was -271 kNOK and -17,032 kNOK as of 31st December 2013, compared to -3,381 kNOK for Q4 2012 and -20,473 kNOK as of 31st December 2012. Net cash outflow includes payments to vendors for goods and services. Net cash inflow includes shareholder loan repayment.

Net cash flow arising from the investment activities in the continuing operations for Q4 2013 was -10,348 kNOK and -26,081 kNOK as of 31st December 2013, compared to -5,338 kNOK for Q4 2012 and -13,541 kNOK as of 31st December 2012. Net cash outflow includes all the development costs related to the Badger Explorer Development project, which are eligible for capitalization. Net cash inflow includes cash proceeds from the disposal of shares in the subsidiary.

Net cash flow arising from the financing activities in the continuing operations for Q4 2013 was 17,512 kNOK and 50,647 kNOK as of 31st December 2013, compared to 2,123 kNOK for Q4 2012 and 11,413 kNOK as of 31st December 2012. Net cash inflow includes borrowed funds from the industry partners, public grants received from funding institutions and cash repayments of amounts borrowed.

For the previous reporting periods, the discontinued operations comprise the activities of Severn Subsea Technologies Ltd. (formerly Calidus Engineering Ltd.).

Cash Management

BXPL has the following committed funding related to 2014 activities:

- Demonstrator partner funding	5.8 MNOK
- Skattefunn	1.5 MNOK
- RCN	9.0 MNOK
- Innovasjon Norge	6.0 MNOK

The above amounts add up to a total of 22.3 MNOK and come in addition to the cash position as per 1st January 2014. As a contingency, the credit line with our bankers has been re-activated.

OUTLOOK

BXPL has delivered Milestone 4 which was approved by the Steering committee on 29th January 2014.

In order to accelerate the development of the Badger technology, discussions have been initiated with current partners as well as potential new partners, to secure participation in and funding of the Development- and the Field Pilot Programs.

The Board of Directors is pleased with the partners' approval of Milestones 3 and 4, and is confident that the remaining Milestones of the Badger Explorer Demonstrator Program will be delivered as planned by the end of 2014. Furthermore, the Board is optimistic regarding our partners' continued support for the Badger Explorer Development Program which will reduce the time to market for the commercial Badger Explorer tool.

Stavanger, 12th February 2014
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 (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 previous subsidiaries, Badger Plasma Technology AS and Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.), have been consolidated with the parent company Badger Explorer ASA starting from December 1, 2007. Intercompany sales and purchases, intercompany receivables and payables, intercompany investments and share capital are eliminated. Badger Plasma Technology AS was sold for 1.9 MNOK in December 2012 with a loss of 1.1 MNOK. BXPL sold 70% of shares of its subsidiary Severn Subsea Technologies Ltd. for a net amount of 7.2 MNOK with a loss of 1.1 MNOK in the Group on June 30, 2013. Upon settling the completion accounts, BXPL will realize a further loss of 838 kNOK. The results of the subsidiaries disposed are included in the consolidated statement of income up to the effective date of disposal. As of 31 December 2013 the BXPL Group consists of Badger Explorer ASA.

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

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 loses 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 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 of 31 December 2012.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the financial statements as of 31 December 2012.

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 derivative 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 Program 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 November 15, 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 September 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			Note	Year End	
	Q4 2013	Q3 2013	Q4 2012		31.12.2013	31.12.2012
Revenues						
Other Income	0	0	43		70	365
Public grants	4 808	3 987	-101	1,2	22 375	2 843
Capitalised public grants	-4 808	-3 987	101	1,2	-22 375	-2 843
Total Revenues	0	0	43		70	365
Operating Expenses						
External services for dev. project	8 284	7 165	4 000		24 991	8 993
Payroll and related costs	4 203	1 425	4 779		14 909	19 578
Other operating expenses	2 992	2 525	922		10 729	6 834
Capitalised development cost	-10 348	-8 758	-6 124		-31 523	-17 149
Total Operating Expenses	5 131	2 358	3 577		19 105	18 256
EBITDA	-5 131	-2 358	-3 534		-19 036	-17 891
Depreciation	92	92	136		451	651
Operating profit (loss)	-5 223	-2 450	-3 670		-19 486	-18 542
Net financial income (loss)	-129	-47	-907	4	15	614
Profit (loss) before taxes from continuing operations	-5 352	-2 497	-4 577		-19 471	-17 928
Tax on ordinary result from continuing operations	0	0	0		0	0
Net profit (loss) from continuing operations	-5 352	-2 497	-4 577	9	-19 471	-17 928
Discontinued operations:						
Profit (loss) after tax for the period from discontinued operations	-838	0	-750	12	-4 344	-3 380
Net profit (loss)	-6 190	-2 497	-5 327		-23 815	-21 308
Profit (loss) attributable to non-controlling interests	0	0	-198		54	-845
Profit (loss) attributable to equity holders of the parent	-6 190	-2 497	-5 129		-23 869	-20 463
Earnings per share	-0.33	-0.25	-0.28		-1.31	-1.10
Earnings per share diluted	-0.33	-0.25	-0.28		-1.31	-1.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31.12.2013	30.9.2013	Note	31.12.2012
ASSETS (Unaudited figures in NOK 1000)				
NON-CURRENT ASSETS				
Capitalised development costs	130 785	125 244	2,3,7	121 637
Patent rights	387	387		387
Goodwill	0	0	4,12	5 595
Total intangible assets	131 172	125 631		127 619
Property, plant & equipment	573	646	12	15 273
Total tangible assets	573	646		15 273
Investments in associates	2 701	2 959	4,12	0
Total investments in associates	2 701	2 959		0
TOTAL NON-CURRENT ASSETS	134 446	129 235		142 893
CURRENT ASSETS				
Inventories	0	0		1 932
Sum Inventories	0	0		1 932
Accounts receivables	0	0	4,10	2 124
Other receivables	6 920	7 467	4,12	3 652
Total receivables	6 920	7 467		5 776
Cash and cash equivalents	24 943	17 259	4,10,12	17 608
TOTAL CURRENT ASSETS	31 863	24 727		25 315
TOTAL ASSETS	166 309	153 962	9	168 208
EQUITY AND LIABILITIES (Unaudited figures in NOK 1000)				
EQUITY				
Share capital	2 317	2 317	4	2 317
Share premium fund	218 070	218 070	5	218 070
Other paid in capital	2 966	2 856	4	4 582
Total paid in equity	223 353	223 243		224 969
Retained earnings	-121 725	-115 487		-99 790
Total retained earnings	-121 725	-115 487		-99 790
Non-controlling interests	0	0	12	1 880
TOTAL EQUITY	101 628	107 756		127 059
LIABILITIES				
Capitalised grants	53 920	38 720	7	24 000
Total non-current liabilities	53 920	38 720		24 000
Accounts payables	4 401	4 412	4,10	3 801
Interest-bearing loans and borrowings	0	0	10	8 200
Public duties payables	3 104	603		1 271
Other short term liabilities	3 255	2 471		3 878
Total current liabilities	10 761	7 486		17 149
TOTAL LIABILITIES	64 681	46 206		41 149
TOTAL EQUITY AND LIABILITIES	166 309	153 962		168 208

CONSOLIDATED STATEMENT OF CASH FLOW

Unaudited figures in NOK 1000	Quarters			Note	Year end	
	Q4 2013	Q3 2013	Q4 2012		31.12.2013	31.12.2012
Contribution from operations*	-5 004	-4 761	-3 943		-20 597	-16 517
Change in accounts receivables and accounts payables	913	121	909	4,10	2 487	-2 003
Change in other receivables and payables	3 820	983	-347		1 079	-1 953
Net cash flow from operating activities	-271	-3 658	-3 381		-17 032	-20 473
Investment/sales fixed assets	0	0	0		0	75
Capitalisation of development cost	-10 348	-8 758	-6 124	3	-31 523	-17 149
Sales of capitalised equipment	0	0	34	3	0	294
Reclassification of contribution from industry partner	0	0	0		0	2 488
Sale of shares in subsidiaries	0	6 360	752	4	5 442	752
Net cash flow from investment activities	-10 348	-2 398	-5 338		-26 081	-13 541
Public grants	2 267	4 279	2 046	1	20 343	2 843
Contribution from industry partners	15 200	0	0	7	29 920	7 800
Interest received	46	148	166		387	821
Interest paid	-1	0	-89		-3	-51
Net cash flow from financing activities	17 512	4 427	2 123		50 647	11 413
Total net changes in cash flow - continued operations	6 845	-1 628	-6 596		7 535	-22 601
Total net changes in cash flow - discontinued operations	838	0	-992	12	-199	1 030
Net foreign translation differences	0	0	75		0	0
Cash and cash equivalents beginning of period	17 259	18 887	25 120		17 608	39 179
Cash and cash equivalents end of period	24 943	17 259	17 608		24 943	17 608
Profit (loss) attributable to equity holders of the Company	-5 352	-2 497	-5 129		-19 471	-17 083
Profit (loss) attributable to non-controlling interests	0	0	-198		54	-845
Employee options	110	-2 384	411		-1 616	1 363
Depreciation	92	92	493		451	651
Financial income	-349	-134	-100		-735	-820
Financial expenses	238	40	89		339	51
Share of (profit) / loss of associates	258	123	166	4	380	0
Loss on sale of subsidiary and shares	0	0	0		0	166
*Contribution from operations before tax	-5 004	-4 761	-3 943		-20 597	-16 517



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 as of 31.12.2012		2 317	218 070	4 582	-99 790	1 880	127 059
Changes in non-controlling interest	12				1 934	-1 934	-1
Total comprehensive income					-23 869	54	-23 814
Option plan payment	6			-1 616			-1 616
Equity as of 31.12.2013		2 317	218 070	2 966	-121 725	0	101 628

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited figures in NOK 1000	Quarters			Year end	
	Q4 2013	Q3 2013	Q4 2012	31.12.2013	31.12.2012
Total comprehensive income	-6 190	-2 497	-5 327	-23 815	-21 308
Profit (loss) for the year (period)					
Other comprehensive income - items that will later be reclassified to profit and loss					
Translation differences	-48	0	297	1934	485
Comprehensive income at end of period	-6 238	-2 497	-5 030	-21 881	-20 823

Unaudited figures in NOK 1000	Quarters			Year end	
	Q4 2013	Q3 2013	Q4 2012	31.12.2013	31.12.2012
Total comprehensive income attributable to:					
Equity holders of the parent	-6 238	-2 497	-4 832	-21 935	-19 978
Non-controlling interest	0	0	-198	54	-845
Total comprehensive income	-6 238	-2 497	-5 030	-21 881	-20 823

NOTES

- The projects in the Badger Explorer Development Program are funded by grants from the Research Council of Norway (RCN) and Skattefunn with a percentage of the total project costs. The grants from RCN and Skattefunn were received for both 2012 and 2013. In 2013 Badger Explorer ASA (BXPL) received a public grant from Innovasjon Norway of 14 MNOK for BXPL's ongoing Badger Explorer Demonstrator Development Program. BXPL has also received a grant from RCN of 6.4 MNOK during 2013.
- The costs 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 as of 31 December 2012.
- All project development costs in the Group are capitalised in accordance with the IFRS regulations except for additional project costs of 3,267 kNOK as of 31 December 2013 related to the restriction on capitalisation of own personnel costs in the IFRS standard for the Badger Explorer Prototype project.
- The previous subsidiaries, Badger Plasma Technology AS and Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.), have been consolidated with the parent company Badger Explorer ASA starting from 1 December 2007. Intercompany sales and purchases, intercompany receivables and payables, intercompany investments and share capital are eliminated. Badger Plasma Technology AS was sold for 1.9 MNOK in December 2012 with a loss of 1.1 MNOK. On 28 June 2013 BXPL sold 70% of its shares in Severn Subsea Technologies Ltd. for a net amount of 7.2 MNOK, realizing an estimated loss of 1.1 MNOK in the Group. Upon settling the completion accounts, BXPL will realize a further loss of 838 kNOK. The results of the subsidiaries disposed are included in the consolidated statement of income up to the effective date of disposal. As of 31 December 2013, the BXPL Group consists of Badger Explorer ASA.

From 28 June 2013 Badger Explorer ASA owns 30% of the shares in Severn Subsea Technologies Ltd. (SST). The investment in SST is initially recognised at fair value at the effective date of the sale from 100% to 30% of the shares. Subsequent measurement of the remaining 30% of shares is recognised according to equity method.

- The general assembly decided in its meeting on 9 May 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 160,000,000 NOK related to the listing of Badger Explorer ASA on the Oslo Stock Exchange on 12 June 2007. The total number of shares as at 31 December 2013 is 18,537,288 at par value of 0.125 NOK per share.
- The options granted in 2006 were replaced with new options during Q3 2009. The new option program was approved and has been effective from September 2009, including all employees at the time and granting a total of 406,750 share options at a strike of 10 NOK and 25,000 share options at a strike of 15 NOK. These option agreements are equity based, recognised in the income statement under payroll and related costs and in the statement of financial position under other paid in capital. The options (incl. Employers' national insurance contributions) are recognized over the vesting period starting from September 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" as at 31 December 2013. A total number of 211,168 share options are forfeited, a total of 71,667 share options have expired and a total of 98,248 share options have been exercised. The remaining 50,667 share options are the options that have vested but are still outstanding since they have not been exercised yet.

In Q3 2011 Mr. David Blacklaw has been granted 370,579 share options in BXPL at a strike price of 19 NOK per share. These options must be exercised three to ten days after the presentation of the Q3 2014 report. Mr. Blacklaw resigned as the Company's President and CEO on 15 September 2013. A total of 370,597 share options were forfeited on 15 September 2013.

On 16 September 2013 Mr. Steinar Bakke took on the position as President and CEO. Upon commencement of the employment, Mr. Bakke has been granted 370,000 share options in BXPL at a strike price of 6.50 NOK. 185,000 share options will vest on the day of the publication of the Company's Q4 2015 report. A further 185,000 share options will vest on the day of the publication of the Company's Q2 2017 report. The exercise of fully vested share options is at the sole discretion of the option holder. All share options were "in the money" as of 31 December 2013.

End of September 2013 BXPL entered into a consultancy agreement with Mr. David Blacklaw. Mr. Blacklaw has been granted 100,000 share options to acquire shares in BXPL at a strike price of 7.50 NOK. The share options can be exercised from the effective date of the consultancy agreement until the day of the publication of the Company's Q4 2015 report and were "in the money" as of 31 December 2013.

- The Group has received contributions from five industry partners amounting to 58,895,200 NOK since 2005 whereas 24 MNOK were received prior to 2013. Two new oil companies - Chevron Energy Technology Company (Chevron) in December 2012 and Wintershall Norge AS in February 2013 - joined ExxonMobil Exploration and Production Norway AS (ExxonMobil) and Statoil Petroleum ASA as sponsors of the Badger Explorer Demonstrator Program (BDP). The BDP is a milestone based program. Milestone 2 has been completed and approved in Q1 2013 which released sponsorship funding of 7.36 MNOK from Chevron (received in February 2013) and 7.36 MNOK from Wintershall Norge AS (received in April 2013).

Milestone 3 has been delivered and approved by the Steering Committee on 29 October 2013. Based on the delivery of Milestone 3, the Group received the following contributions in December 2013:

Statoil Petroleum ASA	3 MNOK (excl. VAT)
ExxonMobil	3 MNOK (excl. VAT)
Wintershall Norge AS	4.6 MNOK (excl. VAT)
Chevron	4.6 MNOK

A total of 53,920,000 NOK 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 NOK of the entire contribution of 58,895,200 NOK is capitalised as a reduction of the development costs of which 2,487,600 NOK was capitalised in Q1 2012. The contributions have not been recognised as income.

- Deferred tax asset has not been recognised in the statement of financial position.
- Table below shows the segments which are reported by the Management to the Board of Directors. The segments are the main projects: Badger Explorer and Plasma Channel Drilling*. The P&L figures for the Engineering segment are no longer presented as this segment has been discontinued, ref note 12.

31.12.2013 - Business segments	Badger Explorer	Engineer- ing(**)	Elimin- ation	Total
Unaudited figures in NOK 1000				
Total revenue	70	0	0	70
Segment profit (loss)	-19 471	0	0	-19 471
Total assets	166 309	0	0	166 309

31.12.2012 - Business segments	Badger Plasma (*)	Badger Explorer	Engineer- ing(**)	Elimin- ation	Total
Unaudited figures in NOK 1000					
Total revenue	0	365	0	0	365
Segment profit (loss)	0	-17 928	0	0	-17 928
Total assets	0	162 101	19 846	-15 806	166 140

Q4 2013 - Business segments	Badger Explorer	Engineer- ing(**)	Elimin- ation	Total
Unaudited figures in NOK 1000				
Total revenue	0	0	0	0
Segment profit (loss)	-5 352	0	0	-5 352

Q4 2012 - Business segments	Badger Plasma (*)	Badger Explorer	Engineer- ing(**)	Elimin- ation	Total
Unaudited figures in NOK 1000					
Total revenue	0	43	0	0	43
Segment profit (loss)	0	-4 577	0	0	-4 577

* Badger Plasma Technology AS was sold in December 2012.

** Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.) has been divested and is presented as discontinued operations in the P&L, ref note 12.

10. Related party transactions (Unaudited figures in NOK 1000)

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

Transactions with related party	31.12.2013	31.12.2012
Purchases of services	1 280	0

* In June 2013 BXPL entered into a consultancy agreement with two of its largest shareholders, Dalvin Rådgivning AS and Nilsholmen AS. On 31 December 2013 payments totalling 534 kNOK were made to Dalvin Rådgivning AS in respect of performed consultancy services. Mr. Gunnar Dolven, who is a CFO of BXPL, is a director of Dalvin Rådgivning AS. On 31 December 2013 729 kNOK were paid to Nilsholmen AS, a company owned by Mr. Kjell Markman who is a Sr.VP Business Development & Strategy of BXPL.

* In September 2013 BXPL entered into a consultancy agreement with a foreign company Celekt LLC where Mr. David Blacklaw is a director. Mr. Blacklaw is the previous CEO and President of BXPL. On 31 December 2013 17 kNOK were paid to Celekt LLC.

Transactions with Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.)	31.12.2013	31.12.2012
Accounts payable**	1 886	515
Purchased services**	13 173	5 572
Loan to associate***	2 429	1 630

**Badger Explorer ASA (BXPL) has purchased engineering- and production services from Severn Subsea Technologies Ltd. Nigel Halladay (previous MD of Calidus Engineering Ltd.) owns 77,500 shares in BXPL.

***In December 2012 BXPL provided a shareholder loan to Severn Subsea Technologies Ltd. (SST) of £180k at interest rate of 3.20% p.a. with a down payment period of 1.5 years. Nigel Halladay (previous MD of Calidus Engineering Ltd.) has provided a loan of £60k at interest rate of 0.875 p.a. with a down payment period of 1.5 years respectively. These credit agreements for the amounts of £180k and £60k lent by BXPL and Nigel Halladay respectively were revoked and replaced by the new credit agreement of £240k signed in July 2013. This credit agreement is to be repaid to BXPL by 6 monthly instalments of £40k commencing on 31 July 2013 and continuing to the end of the year 2013 with no interest. Shareholders' loan was entirely repaid to Nigel Halladay by BXPL on 22 May 2013.

Shares held by members of the Board of Directors and members of Management group	31.12.2013	31.12.2012
SEB Private Bank S.A. Luxembourg (Board Director - Marcus Hansson)	565 000	565 000
Board Director - Marcus Hansson	11 668	11 668
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	301 872	301 872
Nilsholmen Investering AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	209 222	209 222
President & CEO - Steinar Bakke	30 000	0
Nilsholmen AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	20 200	20 200
CFO - Gunnar Dolven	8 000	8 000
Board Director - Tone Kvåle	5 000	5 000
Ordinary shares	1 150 962	1 120 962
% of total shares	6.2 %	6.0 %

11. Fair value hierarchy

As at 31 December 2013 the Group does not hold any financial instruments carried at fair value in the statement of financial position.

12. Discontinued operations - partial divestment of shares in Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.)

Unaudited figures in NOK 1000

On 28 June 2013 BXPL entered into the Share Purchase Agreement (Agreement) with a UK based business focused on the design and manufacture of control valves and related products, Severn Glocon Group PLC (Severn Glocon), whereby BXPL sold 84 shares pursuant to the Agreement representing 70% of the issued share capital of its subsidiary Severn Subsea Technologies Ltd. (SST) for the equivalent of 7.2 MNOK. The 36 option shares retained by BXPL represent 30% of the issued share capital of the SST.

Under the Agreement Severn Glocon will acquire another 15% of the shares in SST in 2015 and the remaining 15% in 2016 on an earn-out model basis. The share purchase price for the two future transactions is linked to SST' financial performance during 2014 and 2015 respectively. Under the terms of the Agreement, BXPL will continue to place orders with SST worth minimum of £1.75 million over the next 2.5 years (£1 million in 2013, £500k in 2014 and £250k in 2015).

The partial divestment have been treated as discontinued operations in accordance with IFRS 5 and comparable figures have been changed accordingly.

P&L figures for Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.) for 1H 2013

Revenues	3 290
Total operating expenses	4 871
EBIT	-2 248
Net profit	-2 434

Badger Explorer Group accounts for the disposal of 70% interest as follows:

Partial disposal of 70 % interest in Severn Subsea Technologies Ltd.

Available-for-sale investment	3 081
Cash proceeds on disposal of 70% interest in the subsidiary as of 28 June 2013	7 189
Subsequent change of estimated cash proceeds as of 31 December 2013	-838
Net assets of the subsidiary	9 756
OCI effects	-1 634
Net loss of control of the subsidiary	-1 958

Loss recognised on the loss of control of the Severn Subsea Technologies Ltd. is calculated as follows:

Loss on interest disposed of Severn Subsea Technologies Ltd.

Cash proceeds on disposal of 70% interest as of 28 June 2013	7 189
Subsequent change of estimated cash proceeds as of 31 December 2013	-838
Carrying amount of 70% interest interest in the subsidiary	-6 830
70% of OCI effects*	-1 144
Result of the disposal of 70% interest	-1 622

Loss on interest retained of Severn Subsea Technologies Ltd.

Carrying amount of 30% available-for-sale investment	3 081
Carrying amount of 30% interest	-2 927
30% of OCI effects*	-490
Result on interest retained	-336

*Other comprehensive income

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