



BADGER
EXPLORER



Quarterly Report 3Q 2008

The first self-burying operation of the Badger Explorer Demo50 version is currently being tested in Denmark. The company has not experienced any technological set backs with regards to the concept. The test project is however progressing slower than anticipated due to operational challenges like weather and test site conditions. The main functions have been verified and computer controlled drilling has been performed. Subsurface compaction has not yet been tested, but will be undertaken shortly. Going forward, focus will be on improvements of the drilling tool through extensive testing.

With its retained financial strength and on the basis of the Denmark test results Badger Explorer ASA are well under way towards the goal of developing a commercial autonomous drilling unit.

3Q 2008- AN OVERVIEW

The first fully equipped semiautonomous Badger Explorer, the Demo50 version, was assembled in 3Q. Calidus Engineering Ltd - UK, the 50 % BXPL-owned engineering company, has been greatly involved in the development and delivery of the hydraulics and electronic control systems and software. Assembly and comprehensive tests took place in Norway prior to moving the prototype to Denmark.

The company has not experienced any technological set backs with regards to the concept, which strongly indicates that the self-burying test can be completed as planned with a formation plug created behind the tool. The latter is considered to be a vital part of the Badger Explorer operation.

While the end goal is to develop a drilling tool for use offshore, the Denmark test site is on-shore, thus simplifying the logistics around the operation. The geological structure has however proven to be more loose and porous than anticipated which implies challenges to the compaction operations.

The company will continue its test program in Denmark and during repetitive tests focus on stabilisation and harmonisation of and between various functions including preparations for the next version - a Demo125 unit. This unit will be built to take sub-surface temperatures up to 125 degrees Celsius. Such a tool will undergo tests on far greater depths, and these tests are planned to be performed throughout 2009.

The company's development program is in line with the previously communicated plan.

FINANCIAL STRENGTH

Badger Explorer ASA and the development program are fully financed. This, combined with the agreements with the oil industry majors StatoilHydro, ExxonMobil and Shell, allows for the company to focus entirely on successfully completing the development program.

The company has raised equity in a total of MNOK 235 during 2005 and 2007. In addition, the extended partner agreements with StatoilHydro and ExxonMobil were signed in April 2008. In the present financial climate the partnerships and the financial strength provides a unique position, opening for full focus on further technological development and the upcoming commercial phase.

As of 30th September 2008 the Badger Explorer Group had a net equity of MNOK 213, equivalent to an equity ratio of 92.2 %. Net cash position was MNOK 185. Combined with the partner agreements this is regarded to be sufficient cash to reach a commercial stage.

THE BADGER EXPLORER PROTOTYPE DEVELOPMENT

The main focus during 3Q has been the preparations for the Demo50 tests in Denmark, building and fully assembling the tool including coherent bench testing of components and sub systems. Currently the Demo50 self burying tests are ongoing, however minor operational challenges cause the tests to take more time. The results so far are regarded as promising even if testing of compaction is not yet completed.

The rock formation at the Denmark test site has proven to be both dry, looser and with much higher porosity than first considered, which has complicated the operations.

Through 3Q all attention and focus have been given to the ongoing Badger Explorer development activities which have involved sub vendors to a large extent. More than half of the capacity at Calidus Engineering Ltd has been dedicated to the Badger Explorer development program. Calidus proves to be a vital contributor and partner.



The Badger Explorer is a revolutionary new method/device for hydrocarbon exploration, providing substantial lower risk, cost and complexity than utilising an expensive drilling rig. The Badger Explorer technology has the potential to become “a game changer” when the technology is ready for commercial launch. The industry attention is increasing throughout the whole value chain, such as authorities, oil and gas companies, investors, environmentalists, rig operators and oil service vendors.

The Badger Explorer will lower the risk for environmental pollution and greatly reduce the disturbances commonly associated with exploration activities.

During the spring 2008 Badger Explorer ASA successfully completed the first phase of the Demo50 full scale prototype test. The jig assisted tests were performed onshore at the test site in Denmark and the basic functions/modules were successfully tested.

During 3Q the semi-autonomous Badger Explorer system has been assembled and bench tested at the site in Stavanger. The prototype was shipped to Denmark where the tests are currently being performed. The Demo50 prototype has a total length of 15 meters which requires special consideration in terms of safe handling. A pre-drilled steel conductor to around 12 meters depth allows for vertical and controlled deployment of the tool. The test results have been positive and prove that the main functions operate as anticipated. Further efforts will be made to stabilise the system in order to completely test the self burying operation.

The Demo50 tests continues throughout 4Q 2008.

Calidus Engineering Ltd. has contributed by delivering sophisticated hydraulic and integrated electronic control systems. Calidus has also participated in the assembly and testing of the tool, as well as assisting in the field operations in Denmark.

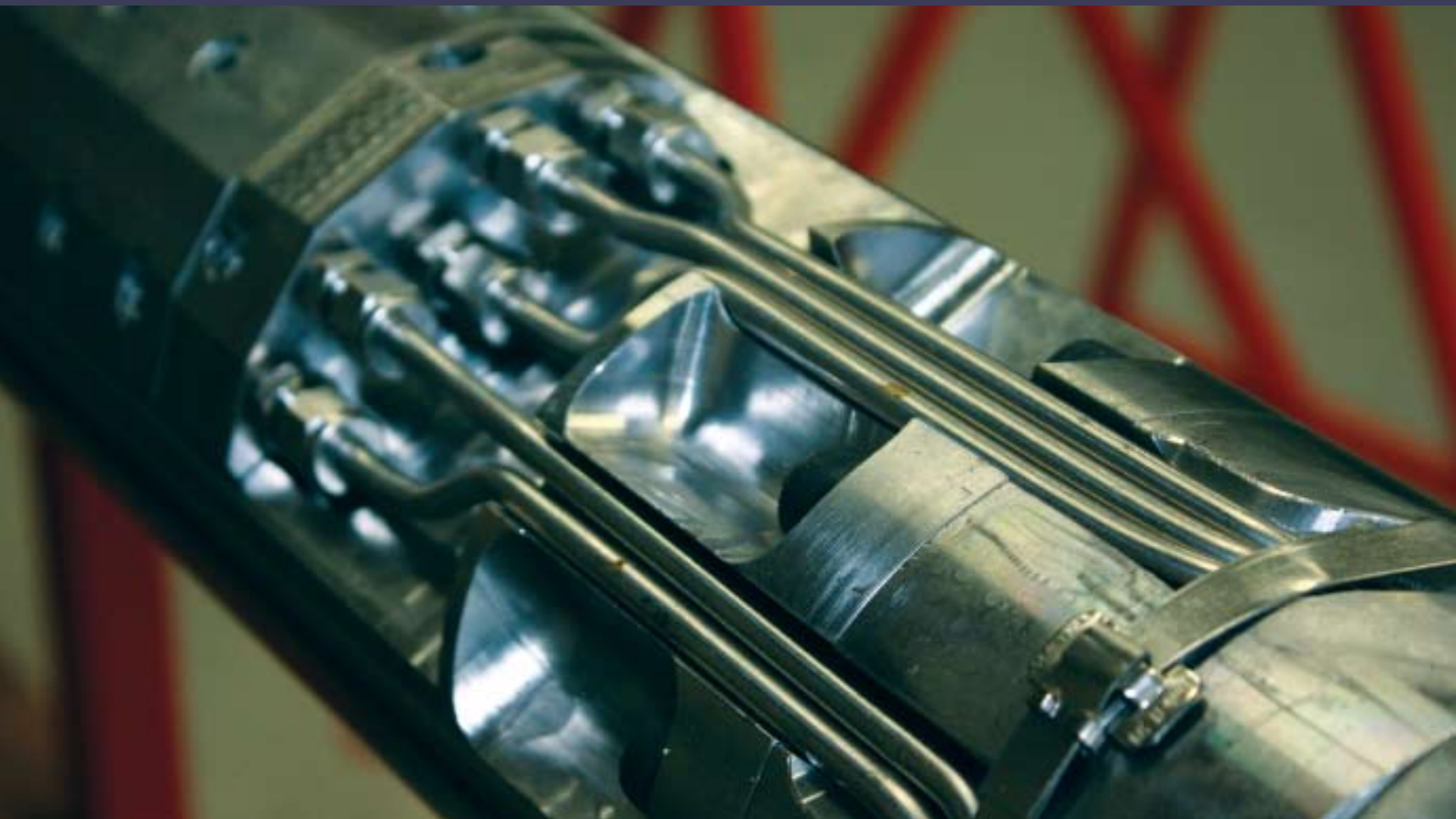
Badger Explorer ASA are in close cooperation with the company’s development partners for a broad contribution to further drive and enhance the development of a Demo125 version.

BADGER PLASMA TECHNOLOGY AS, 100 % SUBSIDIARY

Through 3Q 2008 the activity level in the subsidiary has been at a minimum, allowing for transfer of resources to the Badger Explorer project. In the rest of 2008 and 2009 a strategy will be developed including business plan and partner policy, as well as securing necessary technology rights.

CALIDUS ENGINEERING LTD, 50 % SUBSIDIARY

Calidus Engineering Ltd, UK, (Calidus) is a well reputed specialist company within high-temperature hydraulic



and electronic components and solutions. They are an important supplier to Badger Explorer within these areas and project development work is ongoing. Calidus has a staff of 18 skilled engineers. In addition to modelling and engineering design services, the company runs a prototype based machine shop. The clients mainly come from the local and global oil industry, the thermal industry as well as from the R&D field.

Calidus turnover as of 30.09.2008 was MNOK 8.9, out of which deliveries to Badger Explorer ASA amount to MNOK 4.7.

INVESTOR RELATIONS AND FINANCIAL ISSUES

The cash position of the Badger Explorer Group as of 30.09.2008 was MNOK 185, with a net equity of MNOK 213 (92.2 %). Deposits are held only with Norwegian rated banks, and split on 3 months floating NIBOR terms and 6 months fixed NIBOR terms.

The BXPL shares have been traded at stock prices between NOK 15 and NOK 26 during 3Q 2008.

Approximately 1.6 million shares have been exchanged in 3Q through 194 quoted transactions, which is a lower transaction volume than previous quarters.

The number of shareholders is stable at around 570 investors. The 20 largest shareholders have a total stake of about 83 %, a level that has been stable since 2Q 2008.

Quarterly investor presentations have been held in Oslo and Stavanger. A company presentation was given at the yearly Pareto Oil & Offshore seminar in Oslo 11 September 2008.

BADGER EXPLORER GROUP

Gross spending has been below budget and cash position is stronger than forecasted. Cash position, equity ratio of 92.2 % and the comprehensive partner agreement secure the funding position into the planned commercial phase.

The magnitude of the Badger Explorer Group operations now consists of between 40 and 50 people when including the Calidus engineers. The core staff of Badger Explorer ASA consists of 18 persons and was extended with two new employees in 3Q 2008.

The group is seeking more project personnel, specialists and technical support staff, and the number of employees will as planned continue to increase.

Badger Explorer Group makes use of testing facilities and workshops in Stavanger, test site in Denmark and at Calidus Engineering in Cornwall UK.

MAIN FIGURES (GROUP LEVEL)

Revenues for 3Q 2008 amounted to kNOK 1 315 and to kNOK 4 876 as of 30.09.2008, compared to kNOK 22 for 3Q 2007 and kNOK 205 as of 30.09.2007.

Operating expenses for 3Q 2008 amounted to kNOK 3 367 and to kNOK 12 814 as of 30.09.2008, compared to kNOK 2 229 for 3Q 2007 and kNOK 6 995 as of 30.09.2007.

EBITDA for 3Q 2008 amounted to kNOK - 2 052 and to kNOK -7 937 as of 30.09.2008, compared to kNOK -2 207 for 3Q 2007 and kNOK -6 790 as of 30.09.2007.

Total project development costs for the Badger Explorer Prototype and Plasma Channel Drilling amounted to kNOK 8 986 of which kNOK 7 904 was capitalised for 3Q, and amounted to kNOK 20 442 of which kNOK 17 737 was capitalised as of 30.09.2008.

Public grants for the Badger Explorer Prototype and Plasma Channel Drilling amounted to kNOK 788 for 3Q 2008 and amounted to kNOK 1 472 as of 30.09.2008. All public grants are capitalised together with the project costs.

Earnings per share amounted to NOK -0,003 per share for 3Q 2008 and amounted to NOK -0,050 per share as of 30.09.2008.

Cash reserves per 30.09.2008 are MNOK 185. Efforts have been made in both Norway and UK to secure the deposits.

SUMMARY unaudited figures in NOK 1000	3Q 2008	3Q 2007	30.09. 2008	30.09. 2007
Revenues	1 315	22	4 876	205
Operating expenses	3 367	2 229	12 814	6 995
EBITDA	-2 052	-2 207	-7 937	-6 790
Earnings per share (figures in NOK)	-0,003	0,020	-0,050	-0,176
Projects development costs	8 986	2 755	20 442	10 743
Public grants for projects dev.	788	791	1 472	3 093
Cap. of dev. costs and public grants	7 116	1 391	16 266	5 545

OUTLOOK

The Demo50 testing in Denmark will continue through 4Q 2008. The test program is comprehensive and the activity level is high. System design, component building and testing of Demo125 functionalities will take place in parallel to prepare for the company's planned 2009 activities.

The extended partner agreement allows for increased contribution from the partners through services and technical support. The partnership with the oil majors is very positive and Badger Explorer receives valuable support and backing providing a strengthened foundation for the development project.

The outlook for the remainder of 2008 and 2009 is positive but at the same time challenging. Technical breakthrough is aimed for during the ongoing tests. Considerable systems development, engineering, testing and stabilisation will be needed for the Demo125 test scheduled for 2009.

Calidus Engineering will continue its growth as the order backlog is strong and its services to the oil industry are expanding. The company has been introduced to a number of Norwegian based customers which will contribute positively going forward.

The present financial markets are unstable which have brought uncertainty to all players in the market. Still, Badger Explorer ASA is determined to continue its product development program according to the published plan. The combination of unique partner support, strong cash position and low debt level enables the company to progress uninterrupted. The board foresee that the company is fully financed into the commercial phase.

RESPONSIBILITY STATEMENT

The Board of Directors and the CEO confirm that to the best of their knowledge the condensed set of financial statements as of 30.09.2008 which have been prepared in accordance with IAS 34 - Interim Financial Reporting, gives a true and fair view of the Group's consolidated assets, liabilities, financial position and results of the operations 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, 22th of October 2008



Knut Åm
Chairman



Kristine Holm
Director



Christian Bull Eriksson
Director



Kristijane Cook Bulukin
Director



Geir Worum
Director



Kjell Erik Drevdal
President & CEO



ACCOUNTING POLICIES

Badger Explorer ASA is a public limited company registered in Norway and listed on the Oslo Axess stock exchange. The company's head office is located at Jåttåvågveien 7, N-4020 Stavanger, Norway.

The consolidated financial statement of Badger Explorer ASA and all its subsidiaries (the Group) have been prepared on an historical cost basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as of 31.12.2007.

The Group's consolidated financial statement comprises Badger Explorer ASA (100 %), Badger Plasma Technology as (100 %) and Calidus Engineering Ltd. (50 %). Intercompany sales and expenses, intercompany receivables and payables are eliminated. Purchase of shares is eliminated towards share capital. Excess value of purchase of shares in Calidus is recognised in the balance sheet as 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 31.12.2007. 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 31.12.2007.

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.

Subsidies from the authorities are not recognised until it is reasonably certain that the company will meet the conditions stipulated in connection with the receipt of the subsidies and that the subsidies will be granted. The recognition of subsidies is postponed and depreciated over the period that the costs relating to that which the subsidies are intended for are incurred. Subsidies are recognised as deductions from the cost that the subsidy is meant to cover.

Contributions from partners are recognised in the balance sheet as long term liabilities as the contributions are subject to repayment. Ref. note 13 in the annual accounts.

Options granted in 2006 entitle the employees to receive shares during a 3 year period. This is an equity based option agreement and are recognised on the P&L under personnel costs and on the balance sheet under other paid in equity by 1/36 of the option value per month starting from 01.01.2007. In August 2007 an additional option was granted which entitles the employees to receive shares during a 3 year period. 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.





INCOME STATEMENT

Unaudited figures in NOK 1000

	3Q 2008	3Q 2007	Note	30.09. 2008	30.09. 2007
Revenues					
Other Income	1 315	22	4	4 876	205
Public grants	788	791	1	1 472	3 093
Capitalised public grants	-788	-791	2	-1 472	-3 093
Total Revenues	1 315	22		4 876	205
Operating Expenses					
Cost of goods sold	951	0		2 148	0
External services for dev. project	5 955	1 151	4	12 880	4 850
Salary	2 661	2 169		9 033	5 282
Other Operating Expenses	1 704	1 091	4,11	6 489	5 501
Capitalised development cost	-7 904	-2 182	3	-17 737	-8 638
Total Operating Expenses	3 367	2 229		12 814	6 995
EBITDA	-2 052	-2 207		-7 937	-6 790
Depreciation	313	125		831	324
EBIT	-2 365	-2 332		-8 768	-7 114
Net financial income	2 931	2 694		8 685	4 329
EBT	566	362		-83	-2 785
Tax	0	0		0	0
Net profit/loss from operations	566	362		-83	-2 785
Profit (loss) attributable to minority interests	629	0		828	0
Profit (loss) attributable to equity holders of the parent	-63	362	9,10	-911	-2 785
Earnings per share	-0,003	0,020		-0,050	-0,176
Earnings per share diluted	-0,003	0,020		-0,050	-0,176

BALANCE SHEET

Unaudited figures in NOK 1000

ASSETS	30.09. 2008	30.09. 2007	Notes	31.12. 2007
FIXED ASSETS				
Development costs	29 620	11 763	3	13 354
Patent rights	387	387		387
Goodwill	6 462	0	4	6 625
Total intangible assets	36 468	12 149		20 366
Machinery, fixtures, etc.	3 745	1 230		2 726
Total tangible assets	3 745	1 230		2 726
TOTAL FIXED ASSETS	40 214	13 379		23 091
CURRENT ASSETS				
Inventory	865	0		645
Sum Inventory	865	0		645
Accounts receivable	341	11	4	3 086
Other receivables	4 647	6 888	4	3 249
Total receivables	4 988	6 899		6 335
Cash and cash equivalents	185 119	202 209		199 145
TOTAL CURRENT ASSETS	190 972	209 107		206 125
TOTAL ASSETS	231 186	222 486		229 216

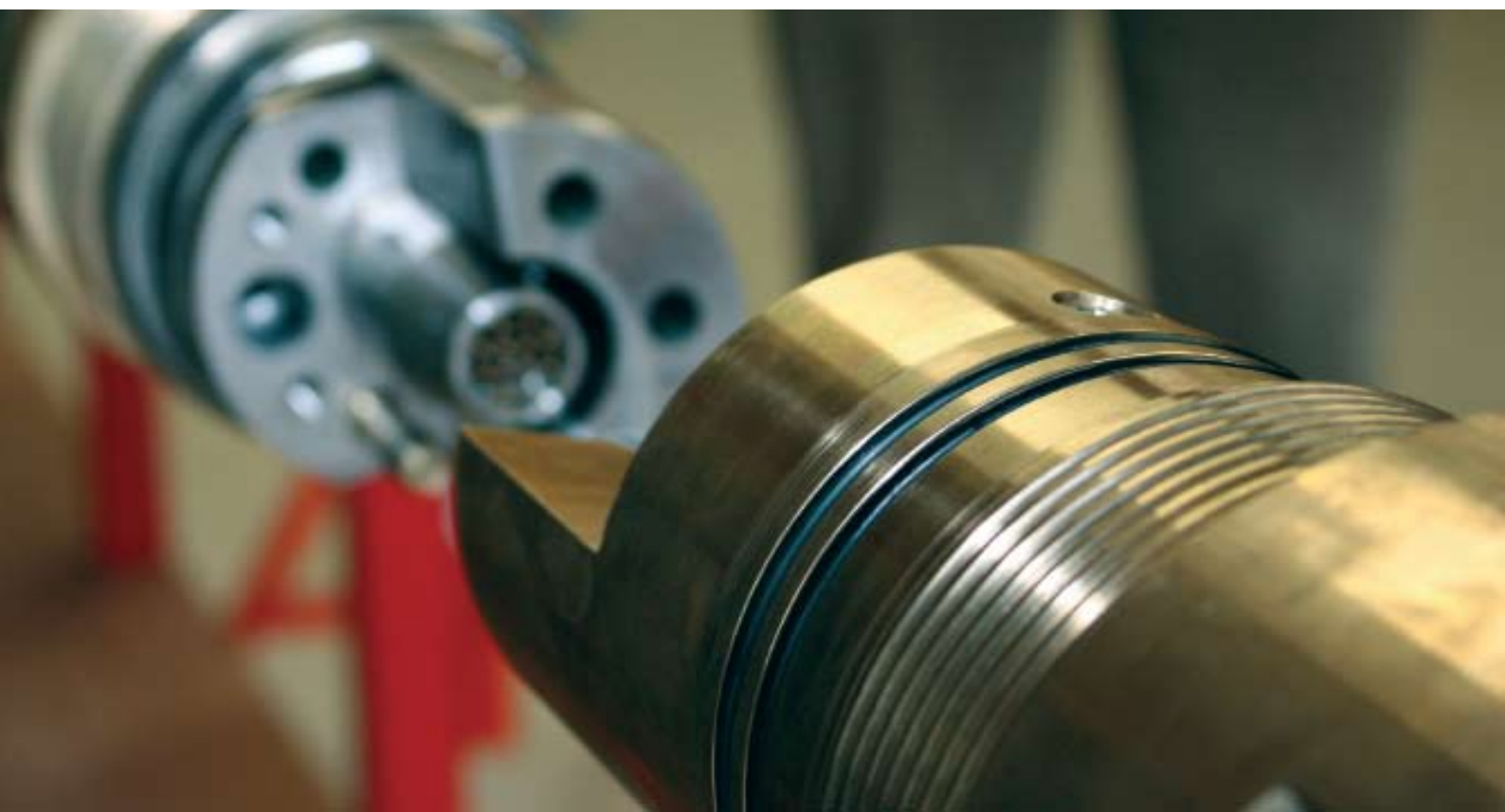
EQUITY AND LIABILITIES figures in NOK 1000	30.09. 2008	30.09. 2007	Notes	31.12. 2007
EQUITY				
Share capital	2 305	2 305	4,5,11	2 305
Share premium reserve	217 100	217 100	5	217 100
Other paid in equity	222	73	4,6	127
Total paid in equity	219 626	219 478		219 532
Currency differences	-637	0		-424
Other equity	-8 657	-7 926		-7 746
Total retained earnings	-9 293	-7 926		-8 170
Minority Interest	2 806	0		1 978
TOTAL EQUITY	213 139	211 552		213 341
LIABILITIES				
Capitalised grants	12 055	8 738	7	10 397
Total long term liabilities	12 055	8 738		10 397
Accounts payable	4 299	933	4,11	2 201
Public duties payable	-289	317		1 057
Taxes payable	26	0		108
Other short term liabilities	1 955	946		2 112
Total short term liabilities	5 991	2 196		5 479
TOTAL LIABILITIES	18 047	10 934		15 875
TOTAL EQUITY AND LIABILITIES	231 186	222 486		229 216

CASH FLOW

Unaudited figures in NOK 1000	30.09. 2008	30.09. 2007	31.12. 2007
Net cash flow from operating activities	-6 204	-8 700	-8 207
Net cash flow from investment activities	-19 588	-9 354	-20 140
Net cash flow from financing activities	11 815	157 503	164 722
Total net changes in cash flow	-13 976	139 448	136 375
Net foreign differences	-50		9
Cash balance at beginning of period	199 145	62 761	62 761
Cash and cash equivalents at end of period	185 119	202 209	199 145

EQUITY RECONCILIATION

Unaudited figures in NOK 1000	30.09. 2008	30.09. 2007	31.12. 2007
Equity at beginning of period	213 341	65 013	65 013
Capital increase	0	160 000	160 000
Share issue cost	0	-10 749	-10 749
Net profit (loss)	-911	-2 785	-2 606
Translation differences	-213	0	-424
Employee options	94	73	127
Minority interest	828	0	1 978
Equity at end of period	213 139	211 552	213 341



NOTES

1. The Badger Explorer Prototype project and the Plasma Channel Drilling project is supported by the Research Council of Norway and "Skattefunn" with a percentage of the total project cost. The calculated amount is accrued consecutively.
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 2 703 kNOK per 30.09.2008.
4. The 100% owned subsidiary, Badger Plasma Technology AS and the 50% owned subsidiary, Calidus Engineering Ltd. have been consolidated with the mother 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 emission of NOK 160 000 000 and listing on Oslo Axess on 12.06.2007. The total number of shares per 30.09.2008 is 18.439.040 at par value of 0.125 per share.
6. Options granted in 2006 entitle the employees to receive shares during a 3 year period until 15.12.2009. Additional options granted in 2007 entitle the employees to receive shares during a 3 year period until 15.12.2010. 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 by 1/36 of the option value per month starting from 01.01.07. 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. After the split of the shares the number of options amounts to 76 000.
7. The Group has received contribution from the three industrial partners amounting to a total of NOK 12 055 800. 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, engineering 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.

30.09.2008 - Business segments	Badger Explorer	Badger Plasma	Engineer- ing	Other	Elimin- ation	Total
Unaudited figures in NOK 1000						
Total revenue	0	0	8 863	1 991	-5 977	4 876
Segment profit (loss)	-2 701	0	828	962	0	-911

30.09.2007 - Business segments	Badger Explorer	Badger Plasma	Engineer- ing	Other	Elimin- ation	Total
Unaudited figures in NOK 1000						
Total revenue	0	0	0	205	0	205
Segment profit (loss)	-1 718	-387	0	-680	0	-2 785

3Q 2008 - Business segments	Badger	Badger	Engineer-		Elimin-	
Unaudited figures in NOK 1000	Explorer	Plasma	ing	Other	ation	Total
Total revenue	0	0	3 937	347	-2 969	1 315
Segment profit (loss)	-1 083	0	629	391	0	-63

3Q 2007 - Business segments	Badger	Badger	Engineer-		Elimin-	
Unaudited figures in NOK 1000	Explorer	Plasma	ing	Other	ation	Total
Total revenue	0	0	0	22	0	22
Segment profit (loss)	-493	-80	0	935	0	362

10. The below table states the affect on the Badger Explorer Group's income statement for 3Q 2007 and per 30.09.2007 as if the acquisition of Calidus Engineering Ltd. had been carried through on January 1st 2007.

Pro forma Income Statement - Badger Explorer Group

Unaudited figures in NOK 1000	3Q 2007	30.09.2007
Other Income	2 348	7 183
Public grants	791	3 093
Capitalised public grants	-791	-3 093
Total Revenues	2 348	7 183
Operating Expenses		
Cost of goods sold	1 037	3 110
Ext. services for dev. project	1 151	4 850
Salary	2 911	7 509
Other Operating Expenses	1 247	5 969
Capitalised development cost	-2 182	-8 638
Total Operating Expenses	4 164	12 800
EBITDA	-1 816	-5 617
Depreciation	186	507
EBIT	-2 002	-6 124
Net financial items	2 602	4 055
EBT	601	-2 069
Tax	-18	-53
Net profit/loss from operations	583	-2 122
Profit (loss) attributable to minority interests	111	332
Profit (loss) attributable to equity holders of the parent	473	-2 454
Earnings per share	0.035	-0.183
Earnings per share diluted	0.035	-0.183



11. Related party transaction Unaudited figures in NOK 1000

Transaction with shareholders	30.09.2008	30.09.2007
Accounts payable	0	239
Total	0	239

Purchased services from Procom Venture AS	30.09.2008	30.09.2007
Administration services	45	1 586
Board of director's fee	175	125
Total	220	1 711

The Company has in 2008 hired personnel from Procom Venture AS. The work was executed by the Executive Chairman of the Board until the 28.02.2008.

Purchased services from IRIS - Forskningsinvest AS	30.09.2008	30.09.2007
Administration services	0	18
Project services	0	27
Total	0	45

The Company has not purchased any services or equipment from IRIS in 2008.

Shares held by members of the board and Management group	30.09.2008	30.09.2007
CFO - Gunnar Dolven	291 872	286 872
Knut Åm	222 600	222 600
CEO - Kjell Erik Drevdal	222 600	222 600
Kristijane Cook Bulukin	1 800	-
CTO - Erling Woods	1 000	-

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