



Semi-annual Report 1H 2011



Badger Explorer ASA has during the first half of 2011 prepared for and completed the two Milestone 3 tests that conclude the prototype program. Both tests have been performed with encouraging results. The Company is in positive dialogue with sponsoring oil companies regarding support for the upcoming pre-commercial phase.

#### THE END OF THE PROTOTYPE PHASE

The Badger Explorer prototype development program commenced in the spring of 2005 and was completed in the summer of 2011. In December 2010 the Company and the three sponsoring oil companies agreed on a revised scope for the prototype project final milestone (Milestone 3). On 30 May 2011 step 1 of Milestone 3, a successful operation test of the Badger Explorer tool in a clay formation, was reported. On 15 July 2011 step 2, the final deeper test, was reported as successfully conducted.

The steering committee, with representatives from the three sponsoring oil companies ExxonMobil, Shell and Statoil, unanimously and unconditionally approved Milestone 3 and formally concluded the prototype development project at their meeting on 17 August 2011. The sponsors have expressed satisfaction with the results. The Board regards the conclusion of the test program of the prototype project as a conceptual breakthrough for the Badger Explorer technology and the latest important milestone in the Company's history. With these latest achievements the Board considers that the concept risk has been reduced significantly. Remaining financial contributions under the prototype development project will be released to the Company shortly.

The completion of Milestone 3 is the result of further improvements of functionalities of the Badger Explorer Demo50 prototype such as strengthening and rebuilding the hydraulic system, installation of a second anchor to control operations in more demanding lithologies, amendments of the cable storage compartment, installation of sensor modules and a complete re-cabling of the tool.

#### PREPARING FOR A COMMERCIAL FUTURE

The transition from the prototype phase to the next phase, the pre-commercial phase, has been emphasized within the Company throughout 1H 2011.

A business plan for the upcoming phase, containing both a detailed technical progress plan and a market and application study, is being developed. In parallel, progress has continued regarding the design, testing and development work on future versions



of the Badger Explorer tool. Several functions and concepts developed and tested in the Demo50 version will be used in the Badger Explorer 125 Demonstrator versions.

In the business plan, the focus has been on identification of early commercial applications which means specific Badger Explorer products and services that can be introduced to the market within a relatively short time frame. Such early applications should generate income to the Company, benefits to the customers and give operational experience and technology that will support the long term vision of servicing the market with deep drilling rig-less exploration services. Studies have been conducted to identify early applications that can provide seismic and geophysical benefits to the clients. Three different service and product fields have been identified: shallow seismic reservoir monitoring, both active and passive, mapping shallow drilling hazards and mapping deeper prospects drilled from existing wells in producing fields.

Markets, regions and geologies have been identified in order to introduce these Badger Explorer early applications. The regional study focused on both the type of geology in the area and operating companies as potential customers. The prioritized early applications have been presented to and attracted interest among selected customers.

To support the ongoing Badger Explorer 125 Demonstrator program a sponsoring group of up to six oil operating companies will be established. The Company is currently negotiating future contracts with existing sponsors as well as new sponsors who have been invited to join. The Company's aim is to partner with the most relevant sponsors and co-operating partners to complete the commercialization of the Badger Explorer tool. The Company is in discussion with sponsors and will inform the market as soon as possible.

Furthermore, the Company has filed applications with Innovation Norway and the Research Council of Norway for soft funding consisting of public grants.

As mentioned, offering dedicated customers a Badger Explorer seismic reservoir monitoring service and a shallow drilling hazard service will be prioritized. Solutions and technology necessary to deliver these first two applications will be further developed for use in future versions of the Badger Explorer tool.

To strengthen the Company, new Board members with relevant network and competences for the commercialization phase, joined the Board as per 27 April (the date of the Annual General Meeting for 2010).





#### CALIDUS ENGINEERING LTD., CORNWALL, UK, 75% OWNED SUBSIDIARY

Calidus Engineering Ltd. (Calidus), UK, is a well-reputed multi-discipline engineering company specializing in designing down-hole equipment for harsh environments. In addition to modeling and engineering design services, the company has a prototyping based machine shop. The revenue mainly comes from clients in the oil industry, the geothermal industry, within the field of R&D and development work on behalf of Badger Explorer ASA.

Calidus' turnover during 1H 2011 was MNOK 7.0 compared to MNOK 6.6 in 1H 2010, out of which 18.2% were deliveries to BXPL (55% in 1H 2010).

The net result before tax (EBT) was MNOK 0.1, compared to MNOK 1.3 the year before. Accrued interests on the mortgage and loan taken out during 2Q 2011 to finance the new premises have decreased the net result per 30.06.2011 compared to the result as of 30.06.2010. Calidus' equity ratio is 38.5% per 30.06.2011 compared to 92.4% per 30.06.2010. The decrease of the equity ratio is related to the mortgage and loan taken out during 2Q 2011.

Calidus Engineering Ltd. has purchased a lease of units 6&7 on Treleigh Industrial Estate, Cornwall, UK of a total of MNOK 12.2 (M£1.4). The company moved into the new premises, which is a combined office and workshop facility, at the end of June 2011. The purchase is financed by a mortgage of MNOK 6.9, a grant from The European Regional Development Fund amounting to MNOK 3.9 and an additional bank loan of MNOK 1.7. Ref. note 13 to the financial statement.

As per 15 April 2011 Badger Explorer ASA acquired an additional 25% of the shares in Calidus Engineering Ltd. at the price of MNOK 8.3. After the purchase BXPL holds 75% of its subsidiary. The price was based on pre-set terms according to the shareholder agreement entered into in November 2007.

#### FINANCIAL STRENGTH AND INVESTOR RELATIONS

In 2005 and 2007 the Company raised equity totaling MNOK 235. The financial details of the sponsor and partner program for the next phase are about to be concluded and confirmed, the same applies for public grants and funding.

As of 30.06.2011 the Badger Explorer Group had a net equity of MNOK 162.3 (equity ratio of 80.5%), compared to MNOK 194.6 (equity ratio of 91.7%) as of 30.06.2010. The Group's total cash reserves amount to MNOK 62.4. The relatively large cash spending in 2Q is due to intensive testing activities and the purchase of 25% of the shares in Calidus Engineering Ltd. The cash spending for 3Q 2011 will return to a normal average level.

#### Investor Relations Issues

The number of shareholders is gradually increasing, and at present there are 874 shareholders. Norwegian entities and individuals hold 64.65% of the total number of outstanding shares. The 20 largest shareholders own 70.27% of the outstanding shares, which is the same level as a year ago. Employees are part of a share option scheme, in connection with which two minor share issues have taken place during 1H 2011.

Quarterly investor presentations have been held in Oslo and Stavanger and there has been broad media coverage following the various press releases.

#### BADGER EXPLORER GROUP

The magnitude of the Badger Explorer Group operations consists of more than 40 people, including skilled Calidus engineers and dedicated specialists with sub-vendors and various research institutes.

The Group is seeking more specialists, technical support and operational staff, thus the number of employees will increase during 2011/2012.

Badger Explorer ASA moved into new premises at Forusskogen 1 in Stavanger in mid May 2011. The facilities contain offices, a workshop, a warehouse and an outdoor test site.

#### EQUAL OPPORTUNITIES AND FAIR TREATMENT OF PERSONNEL

As of 30.06.2011 Badger Explorer ASA had 17 permanent employees, four of whom were female. Badger Plasma Technology AS has no permanent employees. Calidus Engineering Ltd. has 32 employees, 30 male and two female. In order to succeed, the Group is dependent on engaging the best competence available. Hence competence must be sourced where it is available. However, the Company emphasizes the importance of maintaining a balance and distribution of gender, equal compensation for similar work and equal opportunities for everyone in the development and running of the Company. The staff is multinational, representing four nationalities.

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

#### MAIN FIGURES

Revenues for 2Q 2011 amounted to kNOK 2 928 and to kNOK 5 986 for 1H 2011, compared to kNOK 1 723 for 2Q 2010 and kNOK 3 013 for 1H 2010.

Operating expenses for 2Q 2011 amounted to kNOK 9 300 and to kNOK 17 590 for 1H 2011, compared to kNOK 7 274 for 2Q 2010 and kNOK 11 514 for 1H 2010.

EBITDA for 2Q 2011 amounted to kNOK -6 371 and to kNOK -11 603 in 1H 2011, compared to kNOK -5 551 for 2Q 2010 and kNOK -8 501 for 1H 2010.

Total development costs for the Badger Explorer Prototype project amounted to kNOK 8 937 of which kNOK 8 098 was capitalized for 2Q 2011 and amounted to kNOK 15 579 of which kNOK 13 951 was capitalized for 1H 2011.

Public grants for the Badger Explorer project amount to kNOK 874 for 2Q 2011 and amount to kNOK 1 623 for 1H 2011. All public grants are capitalized together with the project costs.

Earnings per share amounted to NOK -0.40 per share for 2Q 2011 and amounted to NOK -0.65 per share for 1H 2011.

CONSOLIDATED SUMMARY (Unaudited figures in NOK 1000)	Quarters			Year to date	
	2Q 2011	1Q 2011	2Q 2010	30.06. 2011	30.06. 2010
Revenues	2 928	3 058	1 723	5 986	3 013
Operating expenses	9 300	8 290	7 274	17 590	11 514
EBITDA	-6 371	-5 232	-5 551	-11 603	-8 501
Earnings per share (figures in NOK)	-0,40	-0,25	-0,23	-0,65	-0,44
Projects development costs	8 937	6 643	7 624	15 579	19 149
Public grants for projects dev.	874	748	217	1 623	325
Cap. of dev. costs and public grants	7224	5 105	5 515	12 329	15 586



## OUTLOOK

The solid achievements through the first half of 2011 provide an improved basis for continued positive development through the remainder of the year.

Ahead of the pre-commercial phase the achievements of 2Q 2011 have reemphasized the attractiveness of the Badger Explorer concept. The preparations for providing the oil & gas industry with the first commercial Badger Explorer services will continue and are expected to gain momentum through the coming months. An overall goal ahead is to transform these applications into commercial pilot contracts with specific customers.

The next phase, the pre-commercial phase, will commence immediately. The scope of the pre-commercial development work in 2011/2012 comprises the further development of the 125 Demonstrator tool which includes further development of basic infrastructure, the process system, testing and test facilities and next generation modules. The overall objective is the development of a higher specification tool to be able to reach significant subterranean depth and provide the basis for future commercial services. It will remain a prioritized task for 3Q 2011 to conclude the discussions with oil companies and other funding sources.

Badger Explorer ASA expects continued sponsor support and the cash spending policy will be prudent. The Badger Explorer team is dedicated and optimistic which enables the Company to progress its development program. The Board sees a substantial potential for the Company's products and services in due course.

Badger Explorer ASA experiences an increased industry interest from a variety of prospective partners, operators, suppliers, oil service industry and others, and in combination with the technical and operational achievements over the past months the Board of Directors retains its optimistic view on the future development of the tool and its markets.

## RISK CONSIDERATIONS

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

Equity fundraisings in 2005 and in 2007 in addition to the sponsor and partner agreements must be regarded as the most risk-reducing external financial effort so far. Furthermore, strategic acquisitions and partnerships are being evaluated on a continuous basis.

The risk elements highlighted in the Annual Report 2010 were:

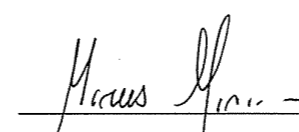
- Technology in relation to the Badger Explorer
- Competing technologies
- The oil service market
- Authorities' permission
- Environmental aspects
- Foreign currency risk
- Interest rate risk
- Market risk
- Credit risk
- Liquidity risk.

The risk elements listed above are still regarded as the main risk factors for the Company. The most important risk-reducing effort conducted during 1H 2011 is the conclusion of the prototype program; the Badger Explorer concept has been proven, which means the Company is closer to providing commercial services.

Furthermore, the Company's strategy is to reduce the risk by focusing on and giving priority to defining near future services.

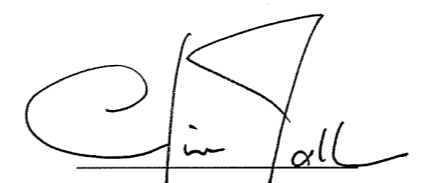
Per yearend 2010 some of the cash reserves were invested in market dependent notes that have been terminated during 1H 2011. To reduce the market risk the present cash balance is purely held with Norwegian banks.

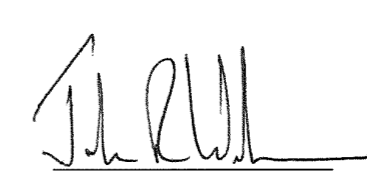
Stavanger, 23 August 2011  
The Board of Directors  
Badger Explorer ASA

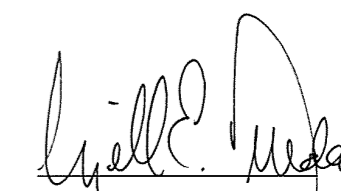
  
Marcus Hansson  
(Chairman of the Board)

  
Kristine Holm  
(Board member)

  
Tone Kvåle  
(Board member)

  
Clive Mather  
(Board member)

  
John R. Wilson  
(Board member)

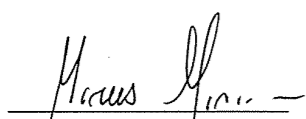
  
Kjell Erik Drevdal  
(President & CEO)



RESPONSIBILITY STATEMENT

The Board of Directors and the CEO confirm that to the best of their knowledge the condensed set of financial statements for the first half year of 2011 which have been prepared in accordance with IAS 34 - Interim Financial Reporting, gives a true and fair view on the Group's consolidated assets, liabilities, financial position and results of the operation for the period, and that the interim management report includes a fair review of the information required under the Norwegian Securities Trading Act section 5-6 fourth paragraph.

Stavanger, 23 August 2011  
The Board of Directors  
Badger Explorer ASA



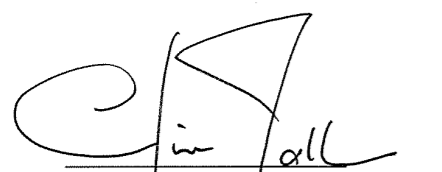
Marcus Hansson  
(Chairman of the Board)



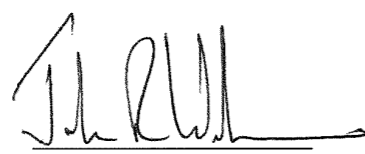
Kristine Holm  
(Board member)



Tone Kvåle  
(Board member)



Clive Mather  
(Board member)



John R. Wilson  
(Board member)



Kjell Erik Drevdal  
(President & CEO)





## ACCOUNTING POLICIES

Badger Explorer ASA is a public limited company registered in Norway and listed on the Oslo Stock Exchange (Oslo Axess list). The Company's head office is located at Forus skogen 1, 4033 Stavanger, Norway.

The consolidated financial statement of Badger Explorer ASA and all its subsidiaries (the Group) has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as of 31.12.2010.

The financial statement has been prepared on an historical cost basis, except for investment in shares in liquidity fund which is held to fair value over profit and loss.

The Group's consolidated financial statement comprises the financial statement of Badger Explorer ASA (100%), Badger Plasma Technology as (100%) and Calidus Engineering Ltd. (75%).

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group 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 or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interest represent the portions of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

The interim financial statement do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the financial statements as at 31.12.2010.

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 31.12.2010.

The Group's consolidated financial statements are presented in NOK. Income statements in foreign subsidiaries are translated into NOK using the average exchange rate for the period (month). Assets and liabilities in foreign subsidiaries, including goodwill and adjustments of fair value of identifiable assets and liabilities arising on the acquisition of subsidiaries are translated into NOK using exchange rate at the balance sheet date. The exchange differences arising from the translation are recognised directly as other comprehensive income in equity.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Inventories are valued at the lower of cost and net realisable value. Cash includes cash in hand and at bank.



Accounts receivable are recognised in the balance sheet at nominal value less provisions for doubtful debts.

Fixed assets are carried at cost less accumulated depreciations and impairment losses.

The gross carrying amount of fixed assets is the purchase price, including duties/taxes and direct acquisition costs relating to making the asset ready for use. Depreciation is calculated using the straight-line method.

Intangible assets are capitalised if it is probable that the expected future financial benefits referred to the asset will accrue to the Company, and that the cost can be calculated in a reliable matter.

Development expenditures related to the Badger Explorer development project and the Badger Plasma Technology project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The Group's intention to complete and the Group's ability to use or sell the asset.
- How the asset will generate future economic benefits.
- The ability to measure reliable the expenditure during development.
- The availability of resources to complete the assets.

When all the above criteria are met, the cost relating to development start to be recognized in the balance sheet.

Costs that have been charged as expenses in previous accounting periods are not recognised in the balance sheet.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Revenue is recognised to the extent when it is probable that the economic benefit will flow to the Group and the revenue can be reliability measured, regardless of when the payment is being made.

Interest income is recognised in the income statement based on the effective interest method as they are earned.

Public grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grants relate to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the cost it intends to compensate. Where the costs are related to a development project and capitalised, the belonging grants are deducting the carrying amount of the asset.

Contributions from partners are recognised in the balance sheet as long term liabilities as the contributions are subject to repayment. Ref. note 14 in the annual accounts.

During Q3 2009 an option program for all employees were introduced. The options entitle the employees to purchase shares at a predetermined price during a 3.2 year period until 15.11.2012. This is an equity based option program and is recognized on the P&L under personnel costs and on the balance sheet under other paid in equity. The options are recognized over the vesting period starting from 15.09.2009. The option value is based on a third party evaluation of the options at the grant date where the Black-Scholes model was used for calculation.

The cash flow statement is prepared in accordance with the indirect method and based upon IAS 7.



### CONSOLIDATED INCOME STATEMENT

Unaudited figures in NOK 1000	Quarters			Note	Year to date		Year end
	2Q 2011	1Q 2011	2Q 2010		30.06.2011	30.06. 2010	31.12. 2010
<b>Revenues</b>							
Other Income	2 910	3 058	1 723	4	5 968	3 013	12 056
Public grants	893	748	217	1,13	1 641	325	1 805
Capitalised public grants	-874	-748	-217	2	-1 623	-325	-1 805
<b>Total Revenues</b>	<b>2 928</b>	<b>3 058</b>	<b>1 723</b>		<b>5 986</b>	<b>3 013</b>	<b>12 056</b>
<b>Operating Expenses</b>							
Cost of goods sold	348	964	164		1 313	340	3 166
External services for dev. project	5 583	3 486	3 941	4	9 069	10 084	16 889
Payroll and related costs	6 216	6 623	5 624		12 839	11 513	26 244
Other operating expenses	5 251	3 070	3 277	4,10	8 321	5 489	11 286
Capitalised development cost	-8 098	-5 853	-5 732	3	-13 951	-15 911	-26 950
<b>Total Operating Expenses</b>	<b>9 300</b>	<b>8 290</b>	<b>7 274</b>		<b>17 590</b>	<b>11 514</b>	<b>30 634</b>
<b>EBITDA</b>	<b>-6 371</b>	<b>-5 232</b>	<b>-5 551</b>		<b>-11 603</b>	<b>-8 501</b>	<b>-18 578</b>
Depreciation	372	275	306		646	590	989
<b>Operating profit (loss)</b>	<b>-6 743</b>	<b>-5 506</b>	<b>-5 857</b>		<b>-12 249</b>	<b>-9 091</b>	<b>-19 567</b>
Net financial	-451	629	1 827	11	178	1 573	487
<b>Profit (loss) before taxes</b>	<b>-7 194</b>	<b>-4 877</b>	<b>-4 030</b>		<b>-12 071</b>	<b>-7 518</b>	<b>-19 080</b>
Tax on ordinary result	0	0	0		0	0	-418
<b>Net profit/loss</b>	<b>-7 194</b>	<b>-4 877</b>	<b>-4 030</b>		<b>-12 071</b>	<b>-7 518</b>	<b>-19 497</b>
Profit (loss) attributable to non-controlling interests	218	-195	279		23	659	1 408
<b>Profit (loss) attributable to equity holders of the parent</b>	<b>-7 412</b>	<b>-4 682</b>	<b>-4 309</b>	9	<b>-12 094</b>	<b>-8 176</b>	<b>-20 905</b>
<b>Earnings per share</b>	<b>-0,40</b>	<b>-0,25</b>	<b>-0,23</b>		<b>-0,65</b>	<b>-0,44</b>	<b>-1,13</b>
<b>Earnings per share diluted</b>	<b>-0,40</b>	<b>-0,25</b>	<b>-0,23</b>		<b>-0,65</b>	<b>-0,44</b>	<b>-1,13</b>

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (Unaudited figures in NOK 1000)	30.06.2011	31.03. 2011	30.06. 2010	Notes	31.12. 2010
<b>NON-CURRENT ASSETS</b>					
Capitalised development costs	101 484	94 261	79 597	3	89 156
Patent rights	387	387	387		387
Goodwill	5 367	5 513	6 066	4	5 640
<b>Total intangible assets</b>	<b>107 238</b>	<b>100 161</b>	<b>86 050</b>		<b>95 182</b>
Property, plant & equipment	16 773	3 530	3 631	13	3 642
<b>Total tangible assets</b>	<b>16 773</b>	<b>3 530</b>	<b>3 631</b>		<b>3 642</b>
Investment in shares in liquidity fund	-0	43 087	60 354	11,12	52 616
<b>Sum financial assets</b>	<b>-0</b>	<b>43 087</b>	<b>60 354</b>		<b>52 616</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>124 011</b>	<b>146 777</b>	<b>150 034</b>		<b>151 440</b>
<b>CURRENT ASSETS</b>					
Inventories	2 800	1 741	2 327		4 213
<b>Sum Inventories</b>	<b>2 800</b>	<b>1 741</b>	<b>2 327</b>		<b>4 213</b>
Accounts receivables	4 758	6 280	1 023	4	3 959
Other receivables	7 683	2 998	3 346	4,13	2 905
<b>Total receivables</b>	<b>12 440</b>	<b>9 278</b>	<b>4 368</b>		<b>6 864</b>
<b>Cash and cash equivalents</b>	<b>62 352</b>	<b>44 179</b>	<b>55 538</b>		<b>45 888</b>
<b>TOTAL CURRENT ASSETS</b>	<b>77 593</b>	<b>55 199</b>	<b>62 234</b>		<b>56 965</b>
<b>TOTAL ASSETS</b>	<b>201 604</b>	<b>201 976</b>	<b>212 268</b>		<b>208 404</b>
<b>EQUITY AND LIABILITIES (Unaudited figures in NOK 1000)</b>	<b>30.06. 2011</b>	<b>31.03. 2011</b>	<b>30.06. 2010</b>	<b>Notes</b>	<b>31.12. 2010</b>
<b>EQUITY</b>					
Share capital	2 316	2 314	2 305	4,5,10	2 305
Share premium fund	217 988	217 823	217 100	5	217 100
Other paid in capital	-2 540	2 488	1 706	4,6,14	2 286
<b>Total paid in equity</b>	<b>217 764</b>	<b>222 625</b>	<b>221 111</b>		<b>221 690</b>
Retained earnings	-58 582	-51 009	-31 855	13	-45 696
<b>Total retained earnings</b>	<b>-58 582</b>	<b>-51 009</b>	<b>-31 855</b>		<b>-45 696</b>
<b>Non-controlling interests</b>	<b>3 069</b>	<b>5 898</b>	<b>5 344</b>	13	<b>6 093</b>
<b>TOTAL EQUITY</b>	<b>162 251</b>	<b>177 514</b>	<b>194 599</b>		<b>182 087</b>
<b>LIABILITIES</b>					
Capitalised grants	17 935	17 935	13 855	7	17 935
Interest-bearing loans and borrowings	8 174	64	0	13	80
<b>Total long term liabilities</b>	<b>26 110</b>	<b>17 999</b>	<b>13 855</b>		<b>18 015</b>
Accounts payables	3 258	2 947	2 345	4,10	3 393
Public duties payables	1 415	789	240		2 604
Taxes payables	393	403	212		413
Other short term liabilities	8 178	2 324	1 018		1 893
<b>Total short term liabilities</b>	<b>13 243</b>	<b>6 463</b>	<b>3 814</b>		<b>8 303</b>
<b>TOTAL LIABILITIES</b>	<b>39 353</b>	<b>24 462</b>	<b>17 669</b>		<b>26 318</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>201 604</b>	<b>201 976</b>	<b>212 268</b>		<b>208 404</b>



## CONSOLIDATED STATEMENT OF CASH FLOW

Unaudited figures in NOK 1000	Quarters			Year to date		Note	Year end
	2Q 2011	1Q 2011	2Q 2010	30.06. 2011	30.06. 2010		31.12. 2010
Contribution from operations*	-6 166	-5 029	-5 174	-11 195	-7 741		-17 656
Change in accounts receivable and accounts payable	1 833	-2 767	220	-933	-533	4,10	-2 422
Change in other receivables and payables	707	985	-3 113	1 692	-2 494		-499
Net cash flow from operating activities	-3 626	-6 811	-8 067	-10 437	-10 769		-20 577
Investments in fixed assets	-13 615	-163	-563	-13 778	-887	13	-1 297
Investment/sales bank bonds	0	0	0	0	33 782		33 782
Investment/sales in shares in liquidity fund	43 087	9 529	-1 296	52 616	-60 354	12	-52 616
Additional acquisition of shares in subsidiary	-8 279	0	0	-8 279	0	14	0
Capitalisation of development cost	-8 098	-5 853	-5 732	-13 951	-15 911	3	-26 950
Net cash flow from investment activities	13 094	3 513	-7 590	16 607	-43 371		-47 081
Public grants	893	748	217	1 641	325	1	1 805
Contribution from industry partners	0	0	0	0	0	7	4 080
Other changes in long term receivables and payables	8 110	-16	0	8 095	0	13	80
Interest paid	726	905	1 858	1 632	2 214	11	-1 018
Interest received	-1 177	-276	-31	-1 453	-641	11	1 505
Increase share capital	167	732	-0	899	-0		-0
Net cash flow from financing activities	8 719	2 094	2 044	10 813	1 898		6 452
<b>Total net changes in cash flow</b>	<b>18 188</b>	<b>-1 204</b>	<b>-13 613</b>	<b>16 983</b>	<b>-52 241</b>		<b>-61 206</b>
Net foreign translation differences	-14	-505	761	-519	464		-222
Cash and cash equivalents beginning of period	44 179	45 888	68 391	45 888	107 316		107 316
<b>Cash and cash equivalents end of period</b>	<b>62 352</b>	<b>44 179</b>	<b>55 538</b>	<b>62 352</b>	<b>55 538</b>		<b>45 888</b>
Net result	-7 412	-4 682	-4 309	-12 094	-8 176		-20 905
Profit (loss) attributable to non-controlling interest	218	-195	279	23	659		1 408
Employee options	205	203	377	408	760		1 340
Depreciation	372	275	306	646	590		989
Financial income	-726	-905	-1 858	-1 632	-2 214		-1 505
Financial expenses	1 177	276	31	1 453	641		1 018
<b>*Total contribution from operations</b>	<b>-6 166</b>	<b>-5 029</b>	<b>-5 174</b>	<b>-11 195</b>	<b>-7 741</b>		<b>-17 656</b>

## CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

Unaudited figures in NOK 1000	Note	Share capital	Share pre-mium fund	Other paid in capital	Foreign currency translation	Retained earnings	Non-controlling interest	Total equity
Equity per 30.06.2010		2 305	217 100	1 706	-1 486	-30 369	5 344	194 599
Total comprehensive income					-1 112	-12 729	749	-13 091
Option plan payment				579				579
Equity per 31.12.2010		2 305	217 100	2 286	-2 598	-43 098	6 093	182 087
Share capital increase		11	888					899
Additional acquisition in subsidiary	14			-5 233			-3 046	-8 279
Total comprehensive income					-792	-12 094	23	-12 863
Option plan payment				408				408
Equity per 30.06.2011		2 316	217 988	-2 540	-3 390	-55 192	3 069	162 251

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited figures in NOK 1000	Quarters			Year to date		Year end
	2Q 2011	1Q 2011	2Q 2010	30.06. 2011	30.06. 2010	31.12. 2010
<b>Total comprehensive income</b>						
Profit (loss) for the year (period):	-7 194	-4 877	-4 030	-12 071	-7 518	-19 497
Other comprehensive income						
Translation differences	-161	-631	1 222	-792	820	-292
<b>Comprehensive income at end of period</b>	<b>-7 355</b>	<b>-5 509</b>	<b>-2 808</b>	<b>-12 863</b>	<b>-6 698</b>	<b>-19 789</b>

Total comprehensive income attributable to:	Quarters			Year to date		Year end
	2Q 2011	1Q 2011	2Q 2010	30.06. 2011	30.06. 2010	31.12. 2010
Equity holders of the parent	-7 573	-5 314	-3 087	-12 886	-7 356	-21 197
Non-controlling interest	218	-195	279	23	659	1 408
	<b>-7 355</b>	<b>-5 509</b>	<b>-2 808</b>	<b>-12 863</b>	<b>-6 698</b>	<b>-19 789</b>



## NOTES

- Projects in the Badger Explorer Program are supported by the Research Council of Norway and "Skattefunn" with a percentage of the total project cost. The calculated amount is accrued consecutively. Badger Explorer ASA is also supported by "Skattefunn" and RCN in 2011.
- The cost and the grants for the development of Badger Explorer Prototype Project and Plasma Channel Drilling Project are capitalised.
- 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 1 628 per 30.06.2011.
- The 100% owned subsidiary, Badger Plasma Technology AS and the 75% owned subsidiary, Calidus Engineering Ltd. have been consolidated with the parent company Badger Explorer ASA starting from 01.12.2007. Intercompany sales and purchases, intercompany receivables and payables, intercompany investments and share capital are eliminated.
- The general assembly decided in meeting on 09.05.2007 to split the existing shares which gave an increase in number of shares from 6 719 520 to 13 439 040. A total of 5 000 000 additional shares were issued in connection with the IPO of NOK 160 000 000 related to the listing on Oslo Axess on 12.06.2007. On 18.03.2011 a total number of 73 249 option shares were exercised by employees and 73 249 shares were issued and on 09.06.2011 a total number of 16 666 option shares was exercised by employees and 16 666 shares were issued. The total number of shares per 30.06.2011 is 18 528 955 at par value of 0,125 per share.
- The options granted in 2006 were during 3Q 2009 replaced with new options. The new option program was approved and effective from 15.09.2009, included all employees at the time and granted a total of 382 250 share options at a strike of NOK 10 and 25 000 share options at a strike of NOK 15. The options entitle the employees to purchase shares during a 3.2 year period until 15.11.2012. These are equity based option agreements and are recognised on the P&L under payroll and related costs and on the balance sheet under other paid in capital. The options (incl. Employers' national insurance contributions) are recognized over the vesting period starting from 15.09.2009. The option value is based on a third party evaluation of the options at the grant date where the Black-Scholes model was used for calculation. The replacement of options was treated as a cancellation and re-pricing under IFRS 2. The options were "in the money" per 30.06.2011. A total number of 73 249 share options were exercised in the 1Q 2011 exercise window and a total number of 16 666 share options were exercised in the 2Q 2011 exercise window. 89 915 share options have been exercised in total. Next exercise window will be in 3Q 2011.
- The Group has received contribution from the three industry partners amounting to a total of NOK 17 935 200 since 2005. 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.
- Deferred tax asset has not been recognised.
- Below table shows the segments of which the management is reporting to the Board of Directors. The segments are the main projects; Badger Explorer and Plasma Channel Drilling, engineering; Calidus Engineering Ltd. and other activities (mainly administration).

The column "other" includes all administration support and other costs not allocated directly to any of the other segments. All office equipment and cash in the Norwegian companies are included in this segment.

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

30.06.2010 - Business segments	Badger Explorer	Badger Plasma	Engineering	Other	Elimination	Total
Unaudited figures in NOK 1000						
Total revenue	0	0	6 649	23	-3 660	3 013
Segment profit (loss)	-3 238	0	659	-5 597	0	-8 176
Total assets	76 324	5 899	19 955	122 048	-11 958	212 268

2Q 2011 - Business segments	Badger Explorer	Badger Plasma	Engineering	Other	Elimination	Total
Unaudited figures in NOK 1000						
Total revenue	0	0	3 812	87	-971	2 928
Segment profit (loss)	-838	0	264	-6 837	0	-7 412

2Q 2010 - Business segments	Badger Explorer	Badger Plasma	Engineering	Other	Elimination	Total
Unaudited figures in NOK 1000						
Total revenue	0	0	3 168	23	-1 468	1 723
Segment profit (loss)	-1 892	0	279	-2 695	0	-4 309

- Related party transaction (Unaudited figures in NOK 1000)

Transaction with shareholders	30.06.2011	30.06.2010
Accounts payable*	150	861
Purchased services*	1 613	3 660

\*The Company has purchased engineering- and production services from Calidus Engineering Ltd. in which Badger Explorer ASA owns 75% and Nigel Halladay owns 25% of the shares. Nigel Halladay also owns 52 500 shares in Badger Explorer ASA.

Shares held by members of the board and Management group	30.06.2011	30.06.2010
SIX SIS AG 25PCT (Board Director - Marcus Hansson)	500 000	500 000
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	301 872	301 872
CEO - Kjell Erik Drevdal	222 600	222 600
Nilsholmen Investering AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	209 222	209 222
SEB Private Bank S.A. Luxembourg (Board Director - Marcus Hansson)	65 000	65 000
Nilsholmen AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	20 200	20 200
Invest OK AS (Board Director - Kristine Holm)	15 000	15 000
Board Director - Marcus Hansson	11 668	-
5K International (CEO - Kjell Erik Drevdal)	10 000	10 000
CFO - Gunnar Dolven	8 000	5 000
Board Director - Tone Kvåle	5 000	5 000
Mng. HR, Economy & Adm. - Hege Furland	2 858	2 858
Product Manager - Wolfgang Mathis	2 100	2 100
CTO - Erling Woods	4 000	1 000
<b>Ordinary shares</b>	<b>1 373 520</b>	<b>1 358 852</b>
% of total shares	7,4 %	7,4 %

## 11. Investment in shares

Unaudited figures in NOK 1000

The Company has sold all of its shares of First Norway Alpha KL IV-IA, a market based liquidity fund. The nominal value of the fund was deposited on overnight NIBOR contracts with Norwegian banks. Interest earnings were invested in share options. The value of the shares was monitored on a daily basis. The shares were classified under IAS39 as "financial assets at fair value through profit and loss" and were carried at market value.

Specification of shares in First Norway Alpha KL IV-IA liquidity fund	Number of shares	Subscription price*	Carrying price per share	Carrying amount
Subscription of shares 08.01.2010	54 045	60 000	1 105	59 701
Sale of shares**	-54 045	-60 000	1 083	-58 555
Shares 30.06.2011	0			0

\*Subscription price per share: 1110

\*\*A number of 5 513 shares were sold in 3Q 2010, a number of 9 141 shares were sold in 1Q 2011 and a number of 39 391 shares were sold in 2Q 2011. A total loss of NOK 1 146 805 has been realized in connection with sale of financial assets.

## 12. Fair value hierarchy

As at 30.06.2011 the Group does not hold any financial instruments carried at fair value on the statement of financial positions.

## 13. Purchase of lease - Calidus Engineering Ltd.

In June 2011 Calidus Engineering Ltd. purchased a lease of units 6&7 Treleigh Industrial Estate of a total of MNOK 12.2 (£1 412 500) of which MNOK 8.1 (£940 000) relates to the building (shell only) and MNOK 4.1 (£472 500) relates to the plant and machinery. The building will be depreciated over 25 years and the plant and machinery will be depreciated over 10 years. The purchase is financed by:

1. A mortgage with HSBC of MNOK 6.9 (£800 000) over 15 years with an interest rate of 2.5% over the bank's steering base rate.
2. A grant from The European Regional Development Fund of total MNOK 3.9 (£450 000) over the next 3 years. The grant will be written off to the P&L over the life of the assets to which it relates.
3. An additional loan of MNOK 1.7 (£200,000) from HSBC over 15 years with an interest rate of 2.5% over the bank's steering base rate.

## 14. Additional acquisition of Calidus Engineering Ltd.

Unaudited figures in NOK 1000

In April 2011 Badger Explorer ASA acquired additional 25% of the shares in Calidus Engineering Ltd. Calidus Engineering Ltd. is a private limited company registered in UK. The company is located at 6 Jon Davey Drive, Treleigh Industrial Estate, Redruth, Cornwall TR16 4AX, UK. The parties have agreed upon an acquisition model in which Badger Explorer ASA gradually until 2013 will acquire 100% of Calidus Engineering Ltd. Badger Explorer ASA has now acquired 75% of the shares in the company. The first 50% of the shares were acquired in November 2007 through a combined purchase of outstanding shares and a share issue. Additional 25% of the shares were acquired in April 2011 through purchase of outstanding shares. The remaining 25% of the shares are to be acquired in 2013. The acquisition of this minority interest has been accounted for as an equity transaction in accordance with revised IAS 27.

	Nov. 2007	Apr. 2011	Total
Cash flow on acquisition:	50%	25%	75%
Net cash acquired with the subsidiary	708	0	708
Net cash acquired through own share issue	1 731	0	1 731
Cash paid	8 910	8 279	17 189
Net cash outflow:	6 471	8 279	14 751

Calidus Engineering Ltd. was from 01.12.2007 consolidated with a 50% minority interest and is consolidated with a 25% minority interest from 01.04.2011.



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