



BADGER
EXPLORER



Semi-annual Report H1 2014



HIGHLIGHTS H1 2014 - LONG TERM PARTNER AGREEMENT WITH CHINA NATIONAL PETROLEUM CORPORATION DRILLING RESEARCH INSTITUTE (CNPC DR)

Badger Explorer ASA (BXPL) has signed a Co-operation Agreement concerning a potential long term agreement with CNPC DR, whereby CNPC DR will become a sponsoring partner in the development of the Badger Explorer autonomous drilling tool.

By entering this agreement, CNPC DR will be a partner on equal terms with the existing four partners, Statoil, ExxonMobil, Chevron and Wintershall, in the current Badger Explorer Demonstrator Program. In addition, CNPC DR has, according to the Co-operation Agreement, indicated potential support for the next phase of development as a sponsoring partner in the Badger Explorer Development Program.

CNPC DR has also expressed considerable interest in assisting in the planning and execution of the first Badger Explorer field pilots.

To become on equal terms with the existing partners in the Demonstrator Program, CNPC DR will pay a step-up fee equal to the financial contribution by each of the current 4 partners.

The amount of sponsorship grants each of the participants will release in support of the Badger Explorer Development Program through the period 2015-2017 has been proposed but is not yet fully agreed.

BXPL has to date reached all goals set for completing the Demonstrator Program (completion of the second generation pilot tool) around year end 2014. BXPL will at that time launch the final stage of the Development Program leading up to a commercial Badger Explorer Tool.

OTHER HIGHLIGHTS H1 2014

During the 2nd quarter of 2014, Badger Explorer ASA:

- Agreed with the partners on a revised payment schedule for the remainder of the Demonstrator Program. NOK 4.335 million will be paid on approval of Milestone 5 and NOK 2.645 million will be paid on approval of Milestone 6. BXPL has also agreed with the partners on the revised content and timeframe for Milestone 5 and Milestone 6 and how to conclude the Demonstrator Program.
- Secured funding of the HPHT Ultrasonic project (NOK 13.2 million) and agreed on the final terms with the Research Council of Norway (RCN).
- Continued discussions with the partners regarding the scope of work and the funding of the Development Program.
- Comprehensive preparations to perform the Milestone 5 test in Q3 2014.
- Reached an agreement with Innovation Norway on the time-schedule for disbursement of the remaining grant, altogether NOK 6.0 million to be transferred during H2 2014.
- BXPL has established an overdraft facility with its Norwegian bank Sparebanken Vest.
- A workshop with partners outlining the Development Program has been conducted.

The main technical activities are discussed in more details below.

STATUS OF THE BADGER EXPLORER DEMONSTRATOR PROGRAM

Preparations for Milestone 5 have been the main priority of the Demonstrator program, including design, manufacturing and assembly of a custom test jig. The test jig allows the entire tool to be tested in a multi lithographic environment at Badger Explorer's facilities. The test jig is customizable and will play an important role in qualifying current and new solutions in the tool.

Several new patent applications have been submitted for core technologies, most of which will be implemented in the next generation tool.

Since passing Milestone 4, all the modules in the tool have been put together as sub-systems and finally as one complete Badger Explorer tool. The systems tests have been encouraging and are in their final stages.

Milestone 5 is scheduled this autumn, followed by Milestone 6 that includes a full report of the test results and tool performance.

The revised Milestone 5 will include:

- A full system test performed in BXPL's workshop, including drilling and compaction
- The Badger tool will be operated in a horizontal position with the possibility of performing test of the drilling module in a vertical position
- Milestone 5 will accomplish drilling in multiple lithologies and allow analog and synthetic lithostratigraphies to be tested
- Modules can be tested in differing formations to test interoperability (e.g., anchoring in soft formation while drilling into hard formation)
- Both ends of the tool shall be flooded to saturate the system
- The revised Milestone 5 is planned to be completed by the end of Q3 2014 after which NOK 4.335 million will be released.

The revised Milestone 6 will include:

- Evaluation of the Badger Explorer (BE) Demonstrator Program
- Full report of BE 125 Demonstrator tool and recommendations for improvements based on the Milestone 5 test
- Scope of work for BE Development Program
- In parallel with this, the BXPL team will continue the R&D related to the main challenges, including drilling, transport, compaction and locomotion
- The R&D efforts, combined with Milestone 5 and Milestone 6, will provide a solid starting point for the Badger Explorer Development Program
- The revised Milestone 6 and the Badger Explorer Demonstrator Program will be concluded by the end of Q4 2014 after which NOK 2.645 million will be released.

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

THE BADGER EXPLORER DEVELOPMENT PROGRAM

In parallel with the preparations for Milestone 5, the work on planning the Development Program has continued. The Development Program will address the main challenges identified in the previous programs and aim to deliver a commercial tool at the end of the Program.

A technical workshop was held in June where Badger Explorer presented the Development Program to all the partners. Detailed discussions regarding the main challenges, risks and solutions were held; hence Badger Explorer have a good understanding of the partners' expectations and requirements for the Development Program, including operational requirements, logging requirements and schedules.



Badger Explorer is currently summarizing the conclusions into a scope of work document that will be presented to the partners this autumn. During the latest part of the Demonstrator Program, BXPL identified a few technical improvement opportunities. They will 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 further to identify and mitigate technology risks, understand better how the overall system works and 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 and including the outcome from the ongoing 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. Both Field Tests will be burial tests without recovery of the tools. This schedule will depend on the final program which will be agreed with our partners.

BXPL has initiated discussions with the current partners and CNPC DR 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.

The definition of the scope of work, timeline and budget are essential for these discussions.

FINANCIALS

Investor Relations

Badger Explorer ASA had 770 shareholders on 30th June 2014. Norwegian entities and individuals held 65.2% of the outstanding shares and the 20 largest shareholders held 71.6% of the outstanding shares.

Badger Explorer ASA

The staff of Badger Explorer ASA consisted of 12 full-time employees as of 30th June 2014, compared to 13 employees as of 30th June 2013. Some of the roles, previously held by full-time employees, are currently fulfilled by consultants and contractors.

Equal opportunities and fair treatment of personnel

As of 30th June 2014, Badger Explorer ASA had 12 permanent employees, of whom 3 are female. In order to succeed, the Group is dependent upon 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 of whom three are male and two are female.

Main Figures

Revenues for Q2 2014 were NOK 0.00 and NOK 0.00 for H1 2014, compared to NOK 46,869 for Q2 2013 and NOK 70,268 for H1 2013.

Operating expenses for Q2 2014 were NOK 5.254 million and NOK 10.059 million for H1 2014, compared to NOK 5.695 million for Q2 2013 and NOK 11.568 million for H1 2013.

EBITDA for Q2 2014 was NOK -5.254 million and NOK -10.059 million for H1 2014, compared to NOK -5.648 million for Q2 2013 and NOK -11.498 million in H1 2013.

Total development costs of the Badger Explorer project in Q2 2014 were NOK 6.271 million, of which NOK 5.337 million was capitalized. For H1 2014, development costs were NOK 15.248 million, of which NOK 13.213 million was capitalized. Total development costs of the Badger Explorer project in Q2 2013 were NOK 7.879 million, of which NOK 7.187 million was capitalized. For H1 2013, total development costs were NOK 13.856 million, of which NOK 12.418 million was capitalized.

Capitalized public grants for the Badger Explorer project were NOK 1.254 million for Q2 2014 and NOK 4.256 million for H1 2014,

compared to NOK 5.992 million for Q2 2013 and NOK 13.580 million for H1 2013. All public grants are booked as deductions to the capitalized project costs.

Earnings per share amounted to NOK -0.32 per share for Q2 2014 and NOK -0.60 for H1 2014, compared to NOK -0.45 per share for Q2 2013 and NOK -0.73 per share for H1 2013.

The cash position at BXPL was NOK 2.425 million as of 30th June 2014, compared to NOK 18.887 million as of 30th June 2013. As of 30th June 2014, Badger Explorer ASA had a net equity of NOK 90.800 million (equity ratio of 60.1%), compared to NOK 112.636 million as of 30th June 2013 (equity ratio of 72.0%).

Net cash flow arising from the operating activities in the continuing operations for Q2 2014 was NOK -3.918 million and NOK -12.930 million for H1 2014, compared to NOK -4.733 million for Q2 2013 and NOK -10.792 million for H1 2013. Net cash outflow includes payments to vendors for goods and services received.

Net cash flow arising from the investment activities in the continuing operations for Q2 2014 was NOK -5.337 million and NOK -13.213 million for H1 2014, compared to NOK -7.014 million for Q2 2013 and NOK -12.245 million for H1 2013. Net cash outflow includes all the development costs related to the Badger Explorer Development project, which are eligible for capitalization.

Net cash flow arising from the financing activities in the continuing operations for Q2 2014 was NOK 1.305 million and NOK 3.625 million for H1 2014, compared to NOK 17.287 million for Q2 2013 and NOK 28.515 million for H1 2013. Net cash inflow includes contributions from the industry partners and public grants received from funding institutions. Net cash inflow also includes a bad debt repayment from US Seismic System Inc. (USSI) which had been written off in full in accordance with the Completion Accounts requirement in the Share Purchase Agreement. Due to contributions and public grants from continuing operations net cash flow from financing activities of Badger Explorer ASA was positive.

Total net changes in cash flow from continuing operations for Q2 2014 were NOK -7.949 million and NOK -22.519 million for H1 2014, compared to NOK 5.268 million in Q2 2013 and NOK 5.478 for H1 2013.

In June 2013, BXPL divested 70% of its interest in Severn Subsea Technologies Ltd. Consequently, revenues and operating expenses from continuing operations exclude the disposed business, which have been reclassified to discontinued operations for all periods presented. Any gain or loss from disposal of the business, together with the results of these operations until the date of disposal is reported separately as discontinued operations.

CONSOLIDATED SUMMARY (Unaudited figures in NOK 1000)	Quarters			Year to date	
	Q2 2014	Q1 2014	Q2 2013	30.06.2014	30.06.2013
Revenues	0	0	47	0	70
Operating expenses	5 254	4 804	5 695	10 059	11 568
EBITDA	-5 254	-4 804	-5 648	-10 059	-11 498
Earnings per share	-0.32	-0.29	-0.45	-0.60	-0.73
Projects development costs	6 271	8 977	7 879	15 248	13 856
Public grants for projects development	1 254	3 003	5 992	4 256	13 580
Capitalization of development costs and public grants	4 083	4 874	1 195	8 957	-1 162

COMMITTED FUNDING 2014

- Demonstrator partner funding NOK 6.980 million (NOK 4.335 million for Milestone 5 will be received in November 2014; NOK 2.645 million for Milestone 6 in January 2015)
- Skattefunn NOK 1.554 million (October 2014)
- Research Council of Norway NOK 9.343 million (NOK 3.432 million received in H1 2014; NOK 5.911 million to be released during H2 2014)
- Innovation Norway NOK 6.0 million (July, September & November 2014)
- CNPC DR The step-up payment as new partner in the Demonstrator Program to be released during H2 2014.
The step-up payment equals the contribution given by each of the four other sponsors.

As a contingency, BXPL has established an overdraft facility with its Norwegian bank Sparebanken Vest.

Based on the above, the cash need for the planned activities for 2014 is covered.

Risk considerations

For a company dependent on ground breaking technological development, it is of the utmost importance to continuously monitor and analyze the risks, and manage them in a professional manner. BXPL continuously works to reduce the risk elements that could influence its success, through steady progress in the development project, securing competence, skills and capacities, securing cost control and cash management, and through funding and robust partnerships.

The risk elements highlighted in the Annual Report for 2013 were:

- Liquidity
- Technology in relation to the Badger Explorer
- Competing technologies
- The oil service market
- Authorities' permission
- Environmental aspects
- Exchange rate
- Interest rate
- Credit

The elements listed above are still regarded as the main risk factors for the Company, although their relative priorities have been revised. To support and secure the ongoing technical development plan, BXPL has implemented processes to monitor cash tightly. Administrative overhead have been reduced by more than 40% since 2011, through a combination of cost savings and better cash management.

Cost efficient solutions are sought on technical deliveries. Furthermore, concrete steps have been taken during H1 2014 to secure more funding and to release such cash. The most important steps implemented:

- Established a broader sponsor group
- Divested non-core business units
- Satisfied the specific requirements to release committed public grants and steps to accelerate the transfer of such funding.

The cash position has improved, but cash monitoring will remain an important task.



OUTLOOK

The Board of Directors is very pleased that a new and the fifth partner have joined the Demonstrator Program. The Board is convinced that CNPC DR will be a strong contributor to secure future commercial operations and sale of Badger Explorer services. The agreement with CNPC DR is regarded as a major step forward for BXPL.

The main focus for the BXPL organization during H2 2014 will be to finalize the Demonstrator Program, secure participation from the partners in the Development Program and kick off this program.

The Board of Directors 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 of the Badger Explorer Development Program which will reduce the time to market for the commercial Badger Explorer tool.

Stavanger, 20th August 2014

The Board of Directors
Badger Explorer ASA


Marcus Hansson
(Chairman of the Board)


Birte Noer Borrevik
(Board member)


Bjarne Grettland
(Board member)


Tone Kvåle
(Board member)


David Ottesen
(Board member)


Steinar Bakke
(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 (unaudited) for the first half year of 2014, 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, 20th August 2014
The Board of Directors
Badger Explorer ASA



Marcus Hansson
(Chairman of the Board)



Birte Noer Borrevik
(Board member)




Børge Gretland
(Board member)



Tone Kvåle
(Board member)



David Ottesen
(Board member)



Steinar Bakke
(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 statements of Badger Explorer ASA (the BXPL Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The consolidated financial statements have been prepared on an historical cost basis, except for investment in the associate Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.) which is initially recognised at fair value at the effective date of the disposal of the shares.

Severn Subsea Technologies Ltd. has 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 were eliminated. BXPL sold 70% of shares of its subsidiary Severn Subsea Technologies Ltd. for a net amount of NOK 7.189 million with a loss of NOK 1.120 million in the BXPL Group on 30 June, 2013. Upon settling the completion accounts, BXPL realized a further loss of NOK 838,350. The results of the subsidiary disposed were included in the consolidated statement of income up to the effective date of the disposal. As of 30 June 2014, the BXPL Group consists of Badger Explorer ASA.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the BXPL 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 BXPL Group are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholder's equity.

The interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the consolidated financial statements as of 31 December 2013.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements as of 31 December 2013.

The BXPL Group's consolidated financial statements are presented in NOK. The consolidated 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 or available-for-sale financial assets, 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, 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, loans and borrowings.

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 consolidated statement of financial position 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 are recognised as an intangible asset when the BXPL 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 consolidated statement of financial position.

Costs that have been charged as expenses in previous accounting periods are not recognised in the consolidated statement of financial position.

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 BXPL Group and the revenue can be reliably measured, regardless of when the payment is being made.

Interest income is recognised in the consolidated 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 consolidated statement of financial position under long term liabilities as the contributions are subject to repayment ref note 14 in the BXPL Group annual accounts.

The options granted in Q3 2009 were replaced with new options on 17 February 2014. The Board of Directors of BXPL implemented a new share option program for BXPL employees offering a total of 213,000 share options at a strike price of NOK 7.51, corresponding to 1.2% of all outstanding BXPL shares. The options granted will be vested in tranches and can be exercised at the earliest 12 months subsequent to the date of grant and thereafter at up to 2 occasions during each calendar year, between three and ten days after publications of the Company's Q1 and Q3 quarterly results. All options were "out of the money" as of 30 June 2014.

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

CONSOLIDATED INCOME STATEMENT

Unaudited figures in NOK 1000	Quarters				Year to date		Year End
	Q2 2014	Q1 2014	Q2 2013	Note	30.06.2014	30.06.2013	31.12.2013
Revenues							
Other Income	0	0	47		0	70	70
Public grants	1 254	3 003	5 992	1,2	4 256	13 580	22 375
Capitalized public grants	-1 254	-3 003	-5 992	1,2	-4 256	-13 580	-22 375
Total Revenues	0	0	47		0	70	70
Operating Expenses							
External services for development project	3 467	5 676	5 804		9 143	9 542	24 991
Payroll and related costs	3 899	4 267	4 567		8 166	9 281	14 909
Other operating expenses	3 225	2 738	2 511		5 963	5 163	10 729
Capitalized development costs	-5 337	-7 876	-7 187		-13 213	-12 418	-31 523
Total Operating Expenses	5 254	4 804	5 695		10 059	11 568	19 105
EBITDA	-5 254	-4 804	-5 648		-10 059	-11 498	-19 036
Depreciation	71	90	131		161	267	451
Operating profit (loss)	-5 325	-4 894	-5 779		-10 220	-11 765	-19 486
Net financial income (loss)	-535	-441	92	3,10	-976	191	15
Profit (loss) before taxes from continuing operations	-5 860	-5 335	-5 687		-11 196	-11 575	-19 471
Tax on ordinary result from continuing operations	0	0	0		0	0	0
Net profit (loss) from continuing operations	-5 860	-5 335	-5 687		-11 196	-11 575	-19 471
Discontinued operations:							
Profit (loss) after tax for the period from discontinued operations	0	0	-4 296	10	0	-3 506	-4 344
Net profit (loss)	-5 860	-5 335	-9 982		-11 196	-15 081	-23 815
Profit (loss) attributable to non-controlling interests	0	0	-143		0	54	54
Profit (loss) attributable to equity holders of the parent	-5 860	-5 335	-9 839		-11 196	-15 135	-23 869
Earnings per share	-0.32	-0.29	-0.45		-0.60	-0.73	-1.31
Earnings per share diluted	-0.32	-0.29	-0.45		-0.60	-0.73	-1.31

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (Unaudited figures in NOK 1000)	30.06.2014	31.03.2014	30.06.2013	Note	31.12.2013
NON-CURRENT ASSETS					
Capitalized development costs	139 742	135 659	120 475	2,6	130 785
Patent rights	387	387	387		387
Goodwill	0	0	0	3,10	0
Total intangible assets	140 129	136 046	120 862		131 172
Property, plant & equipment	441	483	738	10	573
Total tangible assets	441	483	738		573
Investments in associates	1 503	2 214	3 081	3,10	2 701
Total investments in associates	1 503	2 214	3 081		2 701
TOTAL NON-CURRENT ASSETS	142 073	138 742	124 681		134 446
CURRENT ASSETS					
Accounts receivables	0	0	0	3,8	0
Other receivables	6 526	7 350	12 848	3,10	6 920
Total receivables	6 526	7 350	12 848		6 920
Cash and cash equivalents	2 425	10 374	18 887	3,8,10	24 943
TOTAL CURRENT ASSETS	8 951	17 724	31 735		31 863
TOTAL ASSETS	151 024	156 466	156 416		166 309

EQUITY AND LIABILITIES (Unaudited figures in NOK 1000)	30.06.2014	31.03.2014	30.06.2013	Note	31.12.2013
EQUITY					
Share capital	2 317	2 317	2 317	3	2 317
Share premium	218 070	218 070	218 070	4	218 070
Other paid in capital	3 333	3 122	5 240	3	2 966
Total paid in equity	223 720	223 509	225 627		223 353
Retained earnings	-132 921	-127 060	-112 991		-121 725
Total retained earnings	-132 921	-127 060	-112 991		-121 725
TOTAL EQUITY	90 800	96 449	112 636		101 628
LIABILITIES					
Capitalized grants	53 920	53 920	38 720	6	53 920
Total non-current liabilities	53 920	53 920	38 720		53 920
Accounts payables	4 541	3 891	4 290	3,8	4 401
Public duties payables	1 221	756	89		3 104
Other short term liabilities	542	1 451	681		3 255
Total current liabilities	6 304	6 098	5 060		10 761
TOTAL LIABILITIES	60 224	60 018	43 780		64 681
TOTAL EQUITY AND LIABILITIES	151 024	156 466	156 416		166 309

CONSOLIDATED STATEMENT OF CASH FLOW

Unaudited figures in NOK 1000	Quarters				Year to date		Year end
	Q2 2014	Q1 2014	Q2 2013	Note	30.06.2014	30.06.2013	31.12.2013
Contribution from operations*	-5 043	-4 648	-5 262		-9 691	-10 785	-20 597
Change in accounts receivables and accounts payables	651	-511	-3 864	3,8	140	-7 289	2 487
Change in other receivables and payables	474	-3 854	4 393		-3 380	7 282	1 079
Net cash flow from operating activities	-3 918	-9 012	-4 733		-12 930	-10 792	-17 032
Capitalization of development cost	-5 337	-7 876	-7 187	2	-13 213	-12 418	-31 523
Sale of shares in subsidiaries	0	0	173	3	0	173	5 442
Net cash flow from investment activities	-5 337	-7 876	-7 014		-13 213	-12 245	-26 081
Public grants	1 159	2 274	7 274	1	3 432	13 797	20 343
Contribution from industry partners	0	0	10 020	6	0	14 720	29 920
Interest received	5	118	29		123	59	387
Interest paid	-35	-72	-35		-107	-61	-3
Income from investments in associates	176	0	0	10	176	0	0
Net cash flow from financing activities	1 305	2 319	17 287		3 625	28 515	50 647
Total net changes in cash flow - continuing operations	-7 949	-14 569	5 268		-22 519	5 478	7 535
Total net changes in cash flow - discontinued operations	0	0	-3 239	10	0	-4 208	-199
Net foreign translation differences	0	0	795		0	9	0
Cash and cash equivalents beginning of period	10 374	24 943	16 063		24 943	17 608	17 608
Cash and cash equivalents end of period	2 425	10 374	18 887		2 425	18 887	24 943
Profit (loss) attributable to equity holders of the Company	-5 860	-5 335	-5 489		-11 196	-11 575	-19 471
Profit (loss) attributable to non-controlling interests	0	0	-143		0	54	54
Employee options	211	156	331	5	368	659	-1 616
Depreciation	71	90	131		161	267	451
Financial income	-34	-118	-127		-152	-252	-735
Financial expenses	35	72	35		107	61	339
Share of (profit) / loss of associates	711	487	0	3,10	1 198	0	380
Income from investments in associates	-176	0	0	10	-176	0	0
*Contribution from operations before tax	-5 043	-4 648	-5 262		-9 691	-10 785	-20 597

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

Unaudited figures in NOK 1000

	Note	Share capital	Share premium	Other paid in capital	Retained earnings	Non-controlling interest	Total equity
Equity as of 31.12.2013		2 317	218 070	2 966	-121 725	0	101 628
Total comprehensive income					-11 196	0	-11 196
Option plan payment	5			368			368
Equity as of 30.06.2014		2 317	218 070	3 333	-132 921	0	90 800

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited figures in NOK 1000

	Quarters			Year to date		Year end
	Q2 2014	Q1 2014	Q2 2013	30.06.2014	30.06.2013	31.12.2013
Total comprehensive income						
Profit (loss) for the year (period)	-5 860	-5 335	-9 982	-11 196	-15 081	-23 815
Other comprehensive income - items that will later be reclassified to profit and loss						
Translation differences	0	0	0	0	0	1 934
Comprehensive income at end of period	-5 860	-5 335	-9 982	-11 196	-15 081	-21 881

	Quarters			Year to date		Year end
	Q2 2014	Q1 2014	Q2 2013	30.06.2014	30.06.2013	31.12.2013
Total comprehensive income attributable to:						
Equity holders of the parent	-5 860	-5 335	-9 839	-11 196	-15 135	-21 935
Non-controlling interest	0	0	-143	0	54	54
Total comprehensive income	-5 860	-5 335	-9 982	-11 196	-15 081	-21 881



NOTES

1. Badger Explorer ASA (BXPL) has previously received public grants from the Research Council of Norway (RCN), Innovation Norway and Skattefunn for the Badger Explorer Development Program. The projects of the Badger Explorer Development Program are funded with a percentage of the total project costs. During H1 2014, BXPL received a public grant of NOK 3.432 million from RCN.
2. The public grants and all project development costs of the BXPL Group, related to the Badger Explorer Development Program, are capitalized in accordance with the IFRS regulations, except of NOK 2.035 million as at 30 June 2014. These additional project costs are related to the restriction on capitalization of own personnel costs in the IFRS standard.
3. Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.) has been consolidated with the parent company BXPL starting from 1 December 2007. Intercompany sales and purchases, intercompany receivables and payables, intercompany investments and share capital were eliminated. On 28 June 2013, BXPL sold 70% of its shares in SST for a net amount of NOK 7.189 million, realizing an estimated loss of NOK 1.120 million in the Group. Upon settling the Completion Accounts, BXPL realized a further loss of NOK 838,350 accounted for in December 2013. The results of the subsidiary disposed were included in the Consolidated Income Statement up to the effective date of the disposal. As of 30 June 2014, the BXPL Group consists of Badger Explorer ASA.

From 28 June 2013, BXPL owns 30% of the shares in 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 the shares is recognized according to equity method.

The BXPL Group has a significant influence but not a control, accompanying a shareholding of 30% of the voting rights.

4. On 9 May 2007, the General Assembly decided to split the existing shares which increased a 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 of Badger Explorer ASA on the Oslo Stock Exchange on 12 June 2007. The total number of shares as at 30 June 2014 is 18,537,288 at par value of NOK 0.125 per share.
5. The previous Employee Share Options Program came into effect in Q3 2009, including all employees at the time and granting a total of 406,750 share options at a strike of NOK 10 and 25,000 share options at a strike of NOK 15. There were no outstanding share options for the period ended 30 June 2014. A total number of 218,668 share options forfeited, a total of 71,667 share options expired and a total of 98,248 share options were exercised. The remaining 43,167 share options were cancelled.

The options granted in Q3 2009 were replaced with a new option program on 17 February 2014. The Board of Directors of BXPL implemented a new Share Options Program for BXPL employees offering a total of 213,000 share options at a strike price of NOK 7.51, corresponding to 1.2% of all outstanding BXPL shares. The options granted will be vested in tranches and can be exercised at the earliest 12 months subsequent to the date of grant and thereafter at up to 2 occasions during each calendar year, between three and ten days after publications of the Company's Q1 and Q3 quarterly results. All options were "out of the money" as of 30 June 2014.

The share options agreements are equity-based incentive compensation. The employee share options are recognised as an expense in the Consolidated Income Statement under "Payroll and related costs" and in the Consolidated Statement of Financial Position under "Other paid in capital". The options (incl. Employers' national insurance contributions) are recognised over the vesting period starting from September 2009. The share option value is based on a third party evaluation of the options at the grant date where the Black-Scholes model is used for calculation. The replacement of options is treated as a cancellation and re-pricing under IFRS 2.

Former CEO Mr. David Blacklaw was granted 370,579 share options in BXPL at a strike price of NOK 19 per share in September 2011. Mr. Blacklaw resigned as the Company's President and CEO on 15 September 2013. A total of 370,597 share options forfeited on 15 September 2013.

BXPL entered into a consultancy agreement with Mr. Blacklaw on 16 September 2013. Mr. Blacklaw was granted 100,000 share options to acquire shares in BXPL at a strike price of NOK 7.50. The share options can be exercised at any time from the date of grant until 31 December 2014. The share options were “out of the money” as of 30 June 2014.

On 16 September 2013, Mr. Steinar Bakke took on the position as President and CEO. Upon commencement of the employment, Mr. Bakke was granted 370,000 share options in BXPL at a strike price of NOK 6.50 per share. 185,000 share options will vest on the date of the publication of the Company’s Q4 2015 report. A further 185,000 share options will vest on the date 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 “out of the money” as of 30 June 2014.

6. The BXPL Group received contributions from five industry partners amounting to NOK 58.895 million since 2005 whereas NOK 24 million 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 partners of the Badger Explorer Demonstrator Program (BDP). The BDP is a milestone based program. Milestone 2 was completed and approved in Q1 2013 which released Demonstrator partner funding of NOK 7.360 million from Chevron (received in February 2013) and NOK 7.360 million from Wintershall Norge AS (received in April 2013).

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

Statoil Petroleum ASA	NOK 3 million (excl.VAT)
ExxonMobil	NOK 3 million (excl.VAT)
Wintershall Norge AS	NOK 4.6 million (excl.VAT)
Chevron Energy Technology Company	NOK 4.6 million

No contributions were received during Q2 2014.

A total of NOK 53.920 million 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 NOK 4.975 million of the entire contribution of NOK 58.895 million is capitalized as a reduction of the development costs of which NOK 2.488 million was capitalized in Q1 2012. The contributions are recognised as capitalized grants in the Consolidated Statement of Financial Position.

7. Deferred tax asset has not been recognised in the Consolidated Statement of Financial Position.

8. 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	30.06.2014	30.06.2013
Purchases of services*	2 190	0

* In June 2013, BXPL entered into a consultancy agreement with two of its largest shareholders - Dalvin Rådgivning AS and Nilsholmen AS. During H1 2014, payments totalling NOK 866,084 were made to Dalvin Rådgivning AS in respect of performed consultancy services and NOK 12,030 related to travel expenses. Mr. Gunnar Dolven, who is a CFO of BXPL, is a director of Dalvin Rådgivning AS. During H1 2014, Nilsholmen AS, a company owned by Mr. Kjell Markman who is a Sr.VP Business Development & Strategy of BXPL, received payments of NOK 1.128 million in respect of performed consultancy services and NOK 183,639 related to travel expenses.

Transactions with Severn Subsea Technologies Ltd.	30.06.2014	30.06.2013
Accounts payable**	111	972
Purchased services**	1 558	5 579

**BXPL purchased engineering- and production services from SST. All purchased services from SST in 2014 are related to the BXPL's development project.

Shares held by members of the Board of Directors and members of the Management Group	30.06.2014	30.06.2013
SEB Private Bank S.A. Luxembourg (Chairman of the Board - Marcus Hansson)	565 000	565 000
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	301 872	301 872
Nilsholmen Investering AS (Sr. VP Business Development & Strategy - Kjell Markman)	209 222	209 222
President & CEO - Steinar Bakke	30 000	0
Nilsholmen AS (Sr. VP Business Development & Strategy - Kjell Markman)	20 200	20 200
Chairman of the Board - Marcus Hansson	11 668	11 668
CFO - Gunnar Dolven	8 000	8 000
Board member - Tone Kvåle	5 000	5 000
Ordinary shares	1 150 962	1 120 962
% of total shares	6.2 %	6.0 %

9. Fair value hierarchy

As at 30 June 2014, the BXPL Group does not hold any financial instruments carried at fair value in the Consolidated Statement of Financial Position.

10. Discontinued operations - partial divestment of shares in Severn Subsea Technologies Ltd.

Unaudited figures in NOK 1000

On 28 June 2013, BXPL entered into the Share Purchase Agreement (Agreement) with 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 NOK 7.189 million with a loss of NOK 1.120 million in the Group. Upon settling the Completion Accounts, BXPL realized a further loss of NOK 838,350 accounted for in December 2013.

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's financial performance during 2014 and 2015 respectively. Under the terms of the Agreement, BXPL will continue to place orders with SST worth minimum of £750k over the next 2 years (£500k in 2014 and £250k in 2015).

The 36 shares retained by BXPL represent 30% of the issued share capital of 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 the shares is accounted for using the equity method.

The BXPL Group has a significant influence but not a control, accompanying a shareholding of 30% of the voting rights.

Under the equity method, the Consolidated Statement of Financial Position includes the initial fair value of the investment, plus the share of the profit or loss generated by SST in the period the profit or loss occurs. Due to the changes in fair value, the carrying amount of the investment is subsequently increased or decreased. BXPL's share of profit or loss of the associate is recognised in the Consolidated Income Statement under "Net financial income (loss)" and in the Consolidated Statement of Cash Flow as a single line ("Share of (profit) / loss of associates").

Carrying amount movements in the Statement of Financial Position of the BXPL Group for the period ended 30 June 2014:

Carrying amount of 30% interest retained as of 28 June 2013	3 081
Share of net result in the associate for the period 29 June - 31 December 2013	-380
Share of net result in the associate for the period 1 January - 30 June 2014	-1 198
Closing balance for the period ended 30 June 2014	1 503

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

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