



BADGER[®]
EXPLORER



Quarterly Report 1Q 2007

SUMMARY

The development, construction and testing of Badger Explorer progresses according to plan.

The target for the first commercial Badger Explorer is unchanged, 2H 2008. The oil & gas market is developing in favour of Badger Explorer and the demand for such a viable concept with regards to less risk and exposure to personnel offshore, more economic exploration, faster mobilization and a much more environmentally friendly solution is continuously being strengthened.

Badger Explorer ASA has signed an agreement with Rosenberg Verft, securing the company a most suitable test site for the Badger Explorer full scale onshore systems functions tests. The site is rented for a period of one year, with options to extend and will also include testing of the Plasma Channel Drilling technology.

The IPO process progresses according to plan, with expected listing on Oslo Stock Exchange 2Q 2007.

BADGER EXPLORER PROTOTYPE - DEVELOPMENT



Full scale experiments and tests have been performed with all primary Badger Explorer functions and with encouraging results. All main components that will go into the basic prototype to be tested onshore at Rosenberg Verft spring 2007 have been ordered and are under construction.

These primary functions comprise:

- Rotary drilling module driven by an electro motor
- Circulation system for cooling and transport of the drill cuttings
- Borehole expansion module
- Cuttings slurry feed and compaction module

In 1Q 2007, finalization of the main modules fabrication and assembly of a basic full scale system prototype has been prioritized. Badger Explorer is cooperating closely with key suppliers in order to secure on time quality deliveries, since the supplier market within the oil & gas market is over heated and with tight capacity. In this regard we have experienced some sliding in the delivery dates and the system functions tests have started week 15 2007. However, the layout and setup of the test site is such that many and intensive tests can be executed in a short time period, so the overall progress of the project will not be affected.

PLASMA CHANNEL DRILLING (PCD)

The PCD Demo2000 funded project commenced in December 2006. An agreement has been signed with the University of Strathclyde, securing necessary resources, expertise and competence to support the project for the next year. The first part of the project will to a large extent be conducted at the University's test facilities in Scotland. The rest of the agreements with the industry funding partners are coming in place shortly. The project is fully financed and under detail planning.

Badger Plasma Technology AS was founded on 19.03.2007 as a 100% subsidiary of Badger Explorer ASA. There have not been any activities in this company as per 31.03.2007. All activities related to the plasma channel drilling project, which was started in December 2006, has so far been managed by Badger Explorer ASA. The plan is to transfer all these activities to Badger Plasma Technology AS within 2007.

ORGANISATION

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

Sick leave in the Company is per 31.03.2007: 2,3%



New employee 01.01.2007, Peder Pedersen - Senior Systems Developer. Educated engineer at the University of Stavanger, division of Electronics and Computer Science and holds a M. Sc degree in Cybernetics and a B.Sc degree in Computer Science. Mr. Pedersen has broad experience from department and project management, product development, software and hardware design, testing and documentation from companies such as Smedvig, Multifluid Inc., ABB Offshore Systems/Vetco Gray, Maritime Well service AS and Siemens AS Oil and Gas.

The recruitment process to hire senior personnel is progressing according to plan. Currently personnel to fill the positions as CFO, drilling engineer and geologist are being searched for. Gunnar Dolven is temporarily being contracted to fill the position as CFO and will remain in the position until a permanent solutions has been reached.

Rolf Ahlqvist is temporarily being contracted to lead the IPO process. His additional engagement will end at the IPO listing and he will thereafter still hold the position as the Chairman of the Board.

MAIN FIGURES

Revenues for 1Q 2007 amounted to kNOK 150. Operating expenses for 1Q 2007 amounted to kNOK 1 825. EBITDA for 1Q 2007 amounted to kNOK -1 676. Total project development costs for the Badger Explorer Prototype and Plasma Channel Drilling for 1Q 2007 amounted to kNOK 3 409 of which kNOK 2 580 was capitalised. Public grants for the Badger Explorer Prototype and Plasma Channel Drilling for 1Q 2007 amounted to kNOK 968. All public grants are capitalised together with the project costs.

Earnings per share for 1Q 2007 amounted to NOK -0,172 per share. Cash reserves per 31.03.2007 are MNOK 61,9.

SUMMARY figures in NOK 1000	1Q 2007	1Q 2006	31.03. 2007	31.03. 2006
Revenues	150	50	150	50
Operating expenses	1 825	1 578	1 825	1 578
EBITDA	-1 676	-1 529	-1 676	-1 529
Earnings per share (figures in NOK)	-0,172	-0,173	-0,172	-0,173
Projects development costs	3 409	1777	3409	1777
Public grants for projects dev.	968	640	968	640
Cap. of dev. costs and public grants	1 612	871	1 612	871

OUTLOOK

The Company has entered into a period with continuously high and increasing level of test activities. Preparation and mobilization of test area for full scale onshore system function testing at Rosenberg Verft is completed and ready for testing operations.

A first simple Badger Explorer prototype system functions test was started in the first week of April 2007. The system function test will be performed onshore at Rosenberg Verft area in full scale and successful test results will represent a major step in the development and be an important verification of the technology and form a good basis for the further work.

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

The IPO process has started and are following a tight schedule, which aims for a listing of Badger Explorer ASA at the Oslo Stock Exchange (Oslo Børs) 2Q 2007.

The PCD technology demonstration project has started and will be fully operational in 2Q 2007.

Stavanger, 18th of April 2007
The Board of Directors
Badger Explorer ASA



ACCOUNTING POLICIES

Badger Explorer ASA has prepared the interim financial statement in full accordance with IAS 34 published by the International Accounting Standards Board.

The interim financial statement does 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 31.12.2006.

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 31.12.2006.

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.

Costs relating to development are capitalised when the following criteria 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 resources for completing the project are present.

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

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

Grants 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 grants and that the grants will be approved. The recognition of grants is postponed and depreciated over the period that the costs relating to that which the grants are intended for are incurred. Grants are recognised as deductions from the cost that the grant 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 until 15.12.2009. This is an equity based option agreement and is 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. 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.

P&L SUMMARY

Figures in NOK 1000	1Q 2007	1Q 2006	Note	31.03. 2007	31.03. 2006
Revenues					
Other Income	150	50		150	50
Public grants	968	640	1	968	640
Capitalised public grants	-968	-640	2	-968	-640
Total Revenues	150	50		150	50
Operating Expenses					
External services for dev. project	1 088	744		1 088	744
Salary	1 758	789		1 758	789
Other Operating Expenses	1 559	1 557		1 559	1 557
Capitalised development cost	-2 580	-1 511	3	-2 580	-1 511
Total Operating Expenses	1 825	1 578		1 825	1 578
EBITDA	-1 676	-1 529		-1 676	-1 529
Depreciation	94	58		94	58
EBIT	-1 769	-1 586		-1 769	-1 586
Net financial income	614	422		614	422
EBT	-1 156	-1 164		-1 156	-1 164
Tax	0	0		0	
Net profit (loss)	-1 156	-1 164		-1 156	-1 164
Earnings per share	-0,172	-0,173		-0,172	-0,173
Earnings per share diluted	-0,172	-0,173		-0,172	-0,173

BALANCE SHEET

ASSETS figures in NOK 1000	31.03. 2007	31.03. 2006	Notes	31.12. 2006
FIXED ASSETS				
Development costs	7 830	3 330	3	6 217
Patent rights	387	387		387
Total intangible assets	8 216	3 717		6 604
Machinery, fixtures, etc.	730	870		838
Total tangible assets	730	870		838
TOTAL FIXED ASSETS	8 947	4 586		7 442
CURRENT ASSETS				
Accounts receivable	1 057	20		2 290
Other receivables	2 376	2 803		2 973
Total receivables	3 432	2 823		5 264
Cash and cash equivalents	61 852	67 237	4	62 761
TOTAL CURRENT ASSETS	65 285	70 060		68 024
TOTAL ASSETS	74 231	74 646		75 467
EQUITY AND LIABILITIES figures in NOK 1000	31.03. 2007	31.03. 2006	Notes	31.12. 2006
EQUITY				
Share capital	1 680	1 680		1 680
Share premium reserve	68 473	68 473		68 473
Other paid in equity	23	0	5	0
Total paid in equity	70 176	70 153		70 153
Other equity	-6 296	-3 337		-5 141
Total retained earnings	-6 296	-3 337		-5 141
TOTAL EQUITY	63 880	66 816		65 013
LIABILITIES				
Capitalized grants	7 909	6 120	6	7 909
Total long term liabilities	7 909	6 120		7 909
Accounts payable	997	1 201		1 577
Public duties payable	314	163		427
Other short term liabilities	1 131	345		540
Total short term liabilities	2 442	1 709		2 545
TOTAL LIABILITIES	10 351	7 829		10 454
TOTAL EQUITY AND LIABILITIES	74 231	74 646		75 467

CASH FLOW

Figures in NOK 1000	31.03. 2007	31.03. 2006	31.12. 2006
Net cash from operating activities	53	-2 686	-7 388
Net cash from investments	-2 566	-2 346	-8 750
Net cash from financing	1 604	1 062	7 956
Net cash flow	-908	-3 971	-8 181
Cash balance at beginning of period	62 761	70 942	70 942
Cash balance at end of period	61 852	67 237	62 761

EQUITY RECONCILIATION

Figures in NOK 1000	31.03. 2007	31.03. 2006	31.12. 2006
Equity at beginning of period	65 013	67 981	67 981
Net profit (loss)	-1 156	-1 164	-2 968
Employee options	23	0	0
Equity at end of period	63 880	66 816	65 013

NOTES

1. The Badger Explorer Prototype project is supported by the Norwegian Research Counsel and "Skattefunn" with a percentage of the total project cost and the calculated amount is accrued consecutively.
2. The cost for the development of Badger Explorer Prototype project is capitalised, subsequently also the grants.
3. The project development costs are capitalised in accordance with the IFRS regulations. Additional project cost not capitalised due to the restriction in the IFRS standard amounts to 829 kNOK for the first quarter 2007.
4. A 100% owned subsidiary, Badger Plasma Technology AS, has been established this quarter. There has not been any activities in this company during 1Q 2007.
5. Options granted in 2006 entitle the employees to receive shares during a 3 year period until 15th of December 2009. 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 01.01.07. 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.
6. The Company has received contribution from the partners amounting to a total of NOK 7 808 200. 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.
7. Deferred tax asset has not been recognised.

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