



BADGER
EXPLORER



Quarterly Report 4Q 2007

Badger Explorer ASA (BXPL) has during 4Q taken further important steps to progress the technical product development and to prepare for commercial operations.

A comprehensive agreement has been negotiated with the three partners; ExxonMobil, StatoilHydro and Shell. This agreement, an addendum to the existing project development agreement, involves extensive support in the ongoing product development phase and also includes a plan through to and into commercial operations together with the partners. This agreement awards the partners first right of refusal to buy the full manufacturing capacity of all Badger Explorers at market price for a period of three years from commercialisation. In return, Badger Explorer will receive from the partners the necessary operational and technical support with regards to access to offshore platforms, vessels, equipment, technology, facilities, data and skill sets for the completion of a commercial Badger Explorer.

The company is preparing for the Demo50-test at the Denmark test site, including geoscience studies and the building of a fully assembled Badger Explorer.

The Calidus Engineering Ltd acquisition as well as the announced establishment of a competence team within high-temperature-downhole-solutions ensures technical progress for future generations of Badger Explorer. The development team has thus strengthened its capabilities.

4Q - AN OVERVIEW

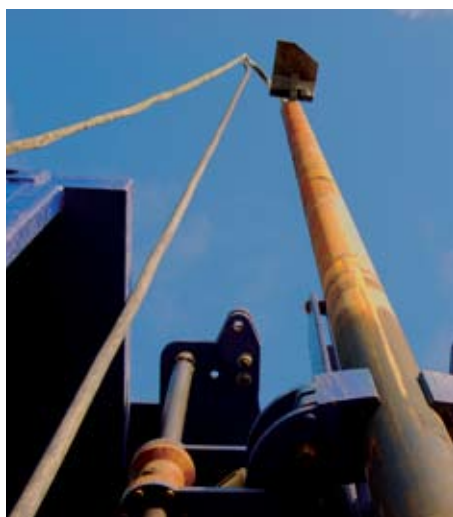
During 4Q the company has concentrated its efforts towards the following four areas; preparing for full scale tests in Denmark, secure competence and capacity in the development team, negotiate a plan through to and into commercial operations with partners and to target the Plasma Technology concept.

An important addendum to the Badger Explorer development project agreement has been negotiated with the three partners ExxonMobil, StatoilHydro and Shell. This represents joint industry collaboration through to and into commercial Badger Explorer operations. The addendum gives the partners first right of refusal to the full manufacturing capacity of all Badger Explorers for a period of three years from commercialisation. All operations will be at market price.

In return, Badger Explorer ASA will receive from the partners the necessary operational and technical support with regards to access to offshore platforms, vessels, equipment, technology, facilities, data and skill sets for the completion of a commercial Badger Explorer.

The estimated manufacturing volumes of Badger Explorer are set to four units in year one, 20 units in year two, and 100 units in year three. Excess manufacturing capacity may be offered to other parties if the partners do not call on such units in due time. Full scale offshore tests are planned to take place 2H 2009.

The BXPL Board of Directors considers the addendum to the partner agreement to be a comprehensive and important achievement in the history of the company, as it, in a profound way, secures the product development including commercial operations.



During 4Q further drilling tests have been conducted at the Rosenberg site outside Stavanger to build, test and stabilise a fully assembled version of Badger Explorer with all functions built into the tool. Mobilisation at the site in Denmark is in progress and the tests in Denmark are scheduled to last until the autumn of 2008.

Within Badger Plasma Technology AS, the wholly owned subsidiary of Badger Explorer ASA, CEO Stig Hetlevik joined the team 01.12.2007.

Calidus Engineering Ltd, Cornwall UK, has been acquired as a result of the tight supplier market in order to secure vital deliveries. Calidus Engineering is an important partner both in the Badger Explorer development and in the testing of Plasma Technology solutions.

The offshore energy market remains strong with a fundamental imbalance in the global energy supply and demand which greatly affects the exploration drilling market and its suppliers. The increased environmental focus also emphasises the need for sustainable exploration drilling methods, giving



Badger Explorer additional advantages. Both authorities and players within the oil and gas industry are giving the company's technological projects increased attention, and the comprehensive addendum to the partner agreement is firm evidence in this respect.

THE BADGER EXPLORER PROTOTYPE DEVELOPMENT

During 4Q the design and development of a fully assembled Badger Explorer Demo50 version (50°C operational temperature) has progressed, including detailed work on electrical systems, hydraulic systems and mechanical systems. Calidus Engineering has completed the layout for Badger Explorer's electrical system incorporating industrial motors.

Tests at the Rosenberg site have continued and valuable experience and learning has been obtained. An Integrated Systems Test (IST) has been performed and requires yet further stabilisation efforts. Additional testing is required to optimise the process and test in other geologies.

Preparations for Demo50 field tests in Denmark are ongoing both in Denmark and Stavanger.

Geological studies are being performed as it is regarded crucial to monitor the tool for specific operating conditions at the test sites. Geoscientific studies to describe the sub surface are important to be able to monitor and control the performance of the Badger Explorer during operations in various geological structures and operating conditions.

During 2008 the Demo50 will be built, tested and stabilised. In 2009, the Demo125 (125°C operational temperature) tests will be performed in co-operations with our partners. Some critical path development activities for Demo125 have been initiated, involving various suppliers.

The extended partner agreement opens for enhanced contributions through to and including commercial operations. The increased partner support will comprise technical expertise, offshore and platform operational services as well as geological data input.

The team and the resources available to complete the Badger Explorer development have thus been profoundly strengthened. The agreement includes three years of commercial operations, making the previous prototype program an integrated part of long term comprehensive support well into commercial operations.

An initiative has been taken to establish a competence team within high-temperature-downhole-solutions, which will contribute to develop future generations of Badger Explorer. The Research Council of Norway has granted MNOK 10 in public funding to a MNOK 31 development program lead by Badger Explorer ASA. The high-temperature competence and solutions have a market far beyond BXPL's needs, thus marketing this through a separate entity will be considered. Actions have been initiated towards parties who may contribute with competence and funding.



BADGER PLASMA TECHNOLOGY AS, 100 % SUBSIDIARY

Badger Plasma Technology AS was established in March 2007 to ensure full focus on the effort to commercialise the applied Plasma Technology obtained through the early Badger Explorer R&D activities, at the same time allowing the Badger Explorer team to fully concentrate on the important task of completing the development of the Badger Explorer.

The Plasma Technology Joint Industry Project (JIP) has been established with support from Shell, StatoilHydro and the Research Council of Norway. A new test facility is in place in Stavanger and critical testing will be performed at the test facility in 1H 2008.

CALIDUS ENGINEERING LTD, 50 % SUBSIDIARY



CALIDUS
ENGINEERING

Badger Explorer ASA acquired 50 % of the shares in Calidus Engineering Ltd., Cornwall UK, in 4Q 2007 as a result of the tight supplier market in order to secure vital deliveries. Calidus Engineering is a well-reputed specialist within high-temperature electrical components and solutions, and will be an important supplier to BXPL within these areas. Development work on behalf of BXPL has commenced. Furthermore, Calidus Engineering will furnish BXPL with plasma test facilities and competence. Calidus Engineering has a staff of 17 highly skilled engineers.

Calidus Engineering had a turnover in 2007 of kNOK 8 528, compared to kNOK 7 943 in 2006. The net result after tax was kNOK 810 in 2007, compared to kNOK 787 in 2006.

INVESTOR RELATIONS AND FINANCIAL ISSUES

The year-end cash position of the Badger Group is MNOK 199, with a net equity of MNOK 213. The development and business plan includes accelerated activity levels and corresponding increased costs. The capital expenditure budget for the Badger Group in 2008 amounts to gross MNOK 61. Estimated income and net financial items bring the net capital expenditure down to MNOK 35 which includes Badger Explorer development project program as well as expenses related to product development of Plasma Technology solutions.

The BXPL share has been traded at a stock price between NOK 27.00 and NOK 34.00 during 4Q, with a total traded volume of 5.1 million shares for the period, equivalent to 28 % of the outstanding shares. At present the Company has 546 shareholders, including a number of institutional investors. Non Norwegian investors hold altogether 33 % of the total number of outstanding shares. The 20 largest shareholders hold altogether 82 % of the issued shares.

During 3Q there were 509 transactions of BXPL shares while in 4Q the number was 493. 30 % of the shares were traded in 3Q, while 28 % were traded in 4Q. During 4Q a number of investor presentations have been held in Oslo, Stavanger and London.

BADGER EXPLORER GROUP

The Badger Explorer Group now consists of more than 50 people as skilled Calidus engineers have joined the team. The core

staff of Badger Explorer ASA consists of 15 employees. The company is seeking more specialists and technical support staff, and the number of employees will increase in 1Q and 2Q 2008.

The Badger Explorer Group makes use of testing facilities and workshops both in Stavanger at the Rosenberg Yard-site, the site in Denmark and at Calidus Engineering in Cornwall UK. The Group headquarters will move to larger premises during 2Q 2008.

MAIN FIGURES

Revenues for 4Q 2007 amounted to kNOK 826 and to kNOK 1 031 as of 31.12.2007. Operating expenses for 4Q 2007 amounted to kNOK 3 329 and to kNOK 10 308 as of 31.12.2007. EBITDA for 4Q 2007 amounted to kNOK -2 503 and to kNOK -9 277 as of 31.12.2007. Total project development costs for the Badger Explorer Prototype and Plasma Channel Drilling for 4Q 2007 amounted to kNOK 4 527 of which kNOK 4 193 was capitalised and to kNOK 15 270 as of 31.12.2007 of which kNOK 12 831 was capitalised. The 4Q capitalisation includes additional capitalisation of kNOK 387 due to transfer of the Plasma Technology project to Badger Plasma Technology AS. Public grants for the Badger Explorer Prototype and Plasma Channel Drilling for 4Q 2007 amounted to kNOK 2 601 and to kNOK 5 694 as of 31.12.2007. All public grants are capitalised together with the project costs. Earnings per share for 4Q 2007 amounted to NOK 0.015 per share and to NOK -0.151 as of 31.12.2007. Cash reserves per 31.12.2007 are MNOK 199.

SUMMARY figures in NOK 1000	4Q 2007	4Q 2006	31.12. 2007	31.12. 2006
Revenues	826	58	1 031	298
Operating expenses	3 329	1 035	10 308	4 923
EBITDA	-2 503	-978	-9 277	-4 624
Earnings per share (figures in NOK)	0,015	-0,026	-0,151	-0,442
Projects development costs	4 527	4 039	15 270	10 015
Public grants for projects dev.	2 601	2 013	5 694	4 175
Cap. of dev. costs and public grants	1 592	1 307	7 137	3 759

OUTLOOK

The high activity level within the Oil & Gas industry is expected to continue through 2008. On one hand Badger Explorer ASA benefits from this promising market outlook. On the other hand the high activity level increases the competition on services, capacity and skilled staff, resulting in cost-overruns and postponed deliveries within the industry which also affects the development of Badger Explorer.

The expanded partner agreement will compensate these negative effects to a large extent, and will enable the company to proceed with its ambitious plans. In addition Badger Explorer ASA benefits from the increasing environmental focus and the advantages of our solutions in such respect.

Testing in Denmark will take place throughout 2008. Development and testing of vital systems and solutions will be enforced. Within Plasma Technology at least two applications will be singled out, tested and prepared for market introduction.

The Badger Explorer development project and the Plasma Technology project are comprehensive and complex development programs. The number of employees will increase, and joint studies with various institutions and contributors will be established.

The expanded partner agreement is considered to be a major step forward. The three partners will contribute with substantial services and technical support, and hence market introduction and sales can be secured.

From a technical, contractual and commercial point of view important milestones are now being reached. The outlook for 2008 is positive and challenging. Successful tests on the Demo50 in Denmark will be a technological breakthrough, and considerable testing, stabilisation and fine tuning will be needed.



ACCOUNTING POLICIES

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

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

The interim financial statement 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 recourses for completing the project are present.

Costs that have been charged as expenses in previous accounting periods are not recognised in the balance sheet. Interest income is recognised in the income statement based on the effective interest method as it is earned.

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

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

Options granted in 2006 entitle the employees to receive shares during a 3 year period. This is an equity based option agreement and are recognised on the P&L under personnel costs and on the balance sheet under other paid in equity by 1/36 of the option value per month starting from 01.01.2007. In August 2007 an additional option was granted which entitles the employees to receive shares during a 3 year period. The option value is based on a third party evaluation of the options at the grant date where the Black-Scholes model was used for calculation.

P&L SUMMARY GROUP

Figures in NOK 1000	4Q 2007	4Q 2006	Note	31.12.	2007	31.12.	2006
Revenues							
Other Income	826	58	4		1 031		298
Public grants	2 601	2 013	1		5 694		4 175
Capitalised public grants	-2 601	-2 013	2		-5 694		-4 175
Total Revenues	826	58			1 031		298
Operating Expenses							
Cost of goods sold	77	0			77		0
External services for dev. project	1 968	2 028	4		6 817		4 187
Salary	3 666	1 464			8 948		4 342
Other Operating Expenses	1 811	864	4		7 296		4 327
Capitalised development cost	-4 193	-3 321	3		-12 831		-7 934
Total Operating Expenses	3 329	1 035			10 308		4 923
EBITDA	-2 503	-978			-9 277		-4 624
Depreciation	159	129			484		335
EBIT	-2 663	-1 106			-9 760		-4 960
Net financial income	2 960	756			7 289		1 992
EBT	298	-350			-2 471		-2 968
Tax	-18	0			-18		0
Net profit/loss from operations	279	-350			-2 489		-2 968
Minority interests	-116	0			-116		0
Net profit/loss	163	-350			-2 606		-2 968
Earnings per share	0,015	-0,026			-0,151		-0,442
Earnings per share diluted	0,015	-0,026			-0,151		-0,442

BALANCE SHEET GROUP

ASSETS figures in NOK 1000	31.12. 2007	31.12. 2006	Notes	31.12. 2006
FIXED ASSETS				
Development costs	13 354	6 217	3	6 217
Patent rights	387	387		387
Goodwill	6 625	0	4	0
Total intangible assets	20 366	6 604		6 604
Machinery, fixtures, etc.	2 726	838		838
Total tangible assets	2 726	838		838
Inventory	645	0		0
Sum Inventory and prepaid suppliers	645	0		0
TOTAL FIXED ASSETS	23 737	7 442		7 442
CURRENT ASSETS				
Accounts receivable	3 086	2 290	4	2 290
Other receivables	3 249	2 973	4	2 973
Total receivables	6 335	5 264		5 264
Cash and cash equivalents	199 145	62 761		62 761
TOTAL CURRENT ASSETS	205 480	68 024		68 024
TOTAL ASSETS	229 216	75 467		75 467
EQUITY AND LIABILITIES figures in NOK 1000	31.12. 2007	31.12. 2006	Notes	31.12. 2006
EQUITY				
Share capital	2 305	1 680	4, 5	1 680
Share premium reserve	217 100	68 473	5	68 473
Other paid in equity	127	0	4, 6	0
Total paid in equity	219 532	70 153		70 153
Other equity	-8 170	-5 141		-5 141
Total retained earnings	-8 170	-5 141		-5 141
Minority Interest	1 978	0		0
TOTAL EQUITY	213 341	65 013		65 013
LIABILITIES				
Capitalised grants	10 397	7 909	7	7 909
Total long term liabilities	10 397	7 909		7 909
Accounts payable	2 201	1 577	4	1 577
Public duties payable	1 057	427		427
Taxes payable	108	0		0
Other short term liabilities	2 112	540		540
Total short term liabilities	5 479	2 545		2 545
TOTAL LIABILITIES	15 875	10 454		10 454
TOTAL EQUITY AND LIABILITIES	229 216	75 467		75 467

CASH FLOW

Figures in NOK 1000	31.12. 2007	31.12. 2006	31.12. 2006
Net cash from operating activities	-7 548	-7 388	-7 388
Net cash from investments	-22 472	-8 750	-8 750
Net cash from financing	166 405	7 956	7 956
Net cash flow	136 384	-8 181	-8 181
Cash balance at beginning of period	62 761	70 942	70 942
Cash balance at end of period	199 145	62 761	62 761

EQUITY RECONCILIATION

Figures in NOK 1000	31.12. 2007	31.12. 2006	31.12. 2006
Equity at beginning of period	65 013	67 981	67 981
Capital increase	160 000	0	0
Emission costs	-10 749	0	0
Net profit (loss)	-2 606	-2 968	-2 968
Other equity	-424	0	0
Employee options	127	0	0
Minority interest	1 978	0	0
Equity at end of period	213 341	65 013	65 013

NOTES

1. The Badger Explorer Prototype project is supported by the Research Council of Norway and "Skattefunn" with a percentage of the total project cost. The calculated amount is accrued consecutively.
2. The cost and the grants for the development of Badger Explorer Prototype project and Plasma Channel Drilling project are capitalised.
3. The project development costs are capitalised in accordance with the IFRS regulations. Additional project cost not capitalised this year due to the restriction in the IFRS standard for the Badger Explorer Prototype project amounts to 2 439 kNOK per 31.12.2007.
4. The 100% owned subsidiary, Badger Plasma Technology AS and the 50% owned subsidiary, Calidus Engineering Ltd. have been consolidated with the mother company Badger Explorer ASA starting from 01.12.2007. Intercompany sales and purchases, intercompany receivables and payables, intercompany investments and share capital are eliminated.
5. The general assembly decided in meeting on 09.05.2007 to split the existing shares which gave an increase in number of shares from 6 719 520 to 13 439 040. A total of 5 000 000 additional shares were issued in connection with the emission of NOK 160 000 000 and listing on Oslo Axess on the 12.06.2007. The total number of shares per 31.12.2007 is 18 439 040 at par value of 0,125 per share.



6. Options granted in 2006 entitle the employees to receive shares during a 3 year period until 15.12.2009. Additional options granted in 2007 entitle the employees to receive shares during a 3 year period until 15.12.2010. These are equity based option agreements and are recognised on the P&L under personnel costs and on the balance sheet under other paid in equity by 1/36 of the option value per month starting from 01.01.2007. 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. After the split of the shares the number of options amounts to 76 000.
7. The Group has received contribution from the three industrial partners amounting to a total of NOK 10 396 800. This contribution shall be repaid to the partners by paying 5% of all technology related sales in the future. This royalty is limited to 150% of received contribution.
8. Deferred tax asset has not been recognised.
9. **Acquisition of Calidus Engineering Ltd.**
On November 9th 2007, Badger Explorer ASA acquired 50% of the shares in Calidus Engineering Ltd, a UK based Oil & Gas engineering company. The parties have agreed upon an acquisition model in which Badger Explorer ASA gradually until 2013 will acquire 100 per cent of Calidus Engineering Ltd. Badger Explorer ASA has initially acquired 50 per cent of the company through a combined purchase of outstanding shares and a share issue. Another 25 percent is to be acquired in 2011, and the remaining 25 percent in 2013.

Purchase price:	8 525 256
Acquisition cost:	<u>384 265</u>
Booked value:	8 909 521
Equity:	<u>1 084 894</u>
Access value:	7 824 627
Emission:	865 819
Goodwill:	<u>6 958 808</u>
	0

Through the acquisition of Calidus Engineering Ltd. Badger Explorer ASA will gain control over and secure access to vital engineering capacity for the ongoing development of the Badger Explorer technology. Calidus Engineering Ltd. has very high competence and delivery capacity within mechanical, hydraulic and electronic concepts within the fields of Oil & Gas, geometry and aerospace. This acquisition is thus a part of the Group's accomplishment strategy. Badger Explorer ASA and Badger Plasma Technology AS will actively draw on Calidus Engineering's capability within system integration, mechanical design, hydraulic, electronic and instrumentation. Especially Calidus Engineering's competence within high temperature and high pressure is very relevant. Competence held within the Calidus Engineering company is considered most vital for the completion of the development projects in Badger Explorer ASA and Badger Plasma Technology ASA and the excess price is therefore considered as Goodwill by the management.

P&L - Calidus Engineering Ltd.	December 2007 - GBP	December 2007 - NOK
Other Income	82	918
Public grants	0	0
Capitalised public grants	0	0
Total Revenues	82	918
Operating Expenses		0
Cost of goods sold	7	77
Ext. services for dev. project	0	0
Salary	32	353
Other Operating Expenses	17	188
Capitalised development cost	0	0
Total Operating Expenses	56	618
EBITDA	27	299
Depreciation	2	18
EBIT	25	282
Net financial income	-3	-31
EBT	23	251
Tax	-2	-18
Net profit/loss from operations	21	232
Minority interests	-10	-116
Net profit/loss	10	116

Pro forma P&L - Badger Explorer Group	4Q 2007	4Q 2006	2007	2006
Other Income	2 100	2 043	9 282	8 242
Public grants	2 601	2 013	5 694	4 175
Capitalised public grants	-2 601	-2 013	-5 694	-4 175
Total Revenues	2 100	2 043	9 282	8 242
Operating Expenses				
Cost of goods sold	768	784	3 878	3 135
Ext. services for dev. project	1 691	2 028	6 540	4 187
Salary	4 161	2 175	11 670	7 188
Other Operating Expenses	1 915	1 021	7 868	4 953
Capitalised development cost	-4 193	-3 321	-12 831	-7 934
Total Operating Expenses	4 342	2 687	17 125	11 529
EBITDA	-2 243	-643	-7 843	-3 287
Depreciation	200	168	707	492
EBIT	-2 443	-811	-8 550	-3 779
Net financial income	2 900	682	6 954	1 598
EBT	457	-130	-1 596	-2 181
Tax	-7	0	46	0
Net profit/loss from operations	464	-130	-1 642	-2 181
Minority interests	-190	-110	-521	-393
Net profit/loss	654	-19	-1 120	-1 788

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