



Quarterly Report 3Q 2011

NEW PHASE - HEADING FOR INTERNATIONAL PRODUCT LAUNCH

By the end of 3Q 2011 Badger Explorer ASA ("BXPL" or "the Company") has passed several key milestones that demonstrate the proof of concept to the satisfaction of the oil company sponsors, and the Company is now moving its focus to the first commercial use of the Badger Explorer ("Badger") tool. The Company will concentrate efforts on further application development, engineering, reliability and preparing for product launch. BXPL has restructured to reflect this change in focus, and a new CEO has been recruited. Over the coming quarters, management's priority will be to secure additional financial sponsorship for this phase, and to define clear specifications for the next generation of Badger tool and its first commercial application.

Completion of the Concept Approval Phase

As previously communicated, the sponsoring oil companies ExxonMobil, Shell and Statoil approved the final concept tests in August.

Technical analysis subsequent to the Milestone 3 tests has confirmed the successful results, and one of the most encouraging conclusions arises from the permeability tests conducted on the compacted plug. These tests indicate that the vertical permeability in the plug is lower than in the original formation, auguring well for the Badger's absolute requirement to seal its drilled path behind the tool, avoiding the creation of a communication path between sub-surface zones.

Badger Early Applications

Badger Explorer ASA has identified a number of potential markets for the first commercial applications of the Badger tool, for example oil sands in Canada and elsewhere. Badger applications will include one-time data logging as the tool drills into the formation, long-term sub-surface monitoring by means of permanently-deployed instrumentation, and distributed or multi-point instrumentation integrated in the cable.

Some of the earlier applications for Badger technology feature onshore operations at relatively shallow depths (200-500m), where conditions are relatively benign. Viable commercial targets in less demanding environments enable the necessary experience, track record and durability of the design to be established. The full value of the technology, however, is likely to lie in later, more challenging operations in deep water or in remote or sensitive areas.

While the immediate design and build steps for the next generation Badger have been identified, BXPL will continue to steer the ongoing technical development work to maintain alignment with the required functionality for the target applications, as these become more tangible. A range of internal and sub-contracted technology achievements have been recently completed or are under active development, including a new, high-temperature brushless electro motor, improved cable storage and deployment methodology, anchor solutions for operation in loose and unconsolidated formations, and enhanced filtration and compaction systems. The Stavanger workshop has been prepared to conduct more extensive in-house function testing, and with the recent acquisition of a majority share in Calidus Engineering, design processes, software tools and operating processes are being harmonized to improve the effectiveness of existing in-house resources.

Preparations for Funding of the Next Phase

The Company is currently in negotiation with major sponsors relating to agreements for the Badger Demonstrator program.

Further, Badger Explorer ASA has filed an application for funding from the Research Council of Norway (RCN) Demo2000 program, with the aim of demonstrating the technology in a deeper drilling test. The Company expects this process to conclude towards the end of 2011.



Another public grant application has been filed with Innovation Norway, a joint industry development contract. This funding program aims to support the development of commercial applications and Badger Explorer ASA has applied for funding to develop its first commercial application. Innovation Norway indicates that their final response will be issued in December 2011.

Delivery of a first generation commercial Badger application will be the focus of the development phase the Company now enters.

Health, Safety, Security and the Environment

Badger Explorer ASA has always been proud of its safety record. The increased emphasis on operations and deployment, however, bring increased exposure of staff to potential risks and more hazardous environments, and embarking on field operations brings an increased number of third parties into contact with the

Company's equipment and processes. Recognizing this, the Company has recently reviewed and implemented a number of pro-active measures and other examples of industry best practice, to increase hazard awareness and minimize the probability of accidents or injuries. Continued emphasis and awareness of issues related to health, safety, security and the environment will ensure that Badger Explorer ASA's systems and processes grow alongside the technical and commercial developments, and that the Company can be equally proud of its HSSE performance as of its technical performance.

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

Calidus Engineering Ltd. ("Calidus") is a multi-discipline engineering company specializing in designing down-hole equipment for harsh environments. In addition to modeling and engineering design services, Calidus runs a prototype based machine shop. Revenue comes from local and global clients from the oil industry and the geothermal industry, as well as from the field of R&D.

Calidus is a vital supplier to Badger Explorer ASA. BXPL business volume in 2011, however, has been low due to extensive BXPL operational activities. With the progress toward a more tangible embodiment of the Badger tool, greater involvement is planned for Calidus in the design and build of the next generation Badger.

Calidus's turnover as of 30.09.2011 amounted to MNOK 9.6 compared to MNOK 10.3 as per 30.09.2010, out of which 22.4% (41% as of 30.09.2010) were deliveries to Badger Explorer ASA.

The net result before tax (EBT) amounted to MNOK -0.9 compared to MNOK 2.1 the prior year. Calidus' equity ratio is 41.4% and the cash position is adequate.

Recognizing the expertise existing within Calidus, and the need for such additional resources to fulfill commitments on the various Badger development projects, the technical effectiveness of both operations has been addressed by an ongoing harmonization exercise, which has the added benefit for Calidus of increasing the accuracy of activity forecasts.

FINANCIALS AND INVESTOR RELATIONS

As of 30.09.2011 the Badger Explorer Group had a net equity of MNOK 154.2 (equity ratio of 79.9%) compared to MNOK 187.1 (equity ratio of 90.9%) as of 30.09.2010.

The Company will focus its activities to support the delivery of its first field pilot contract.



Investor Relations Issues

Badger Explorer ASA has currently 882 shareholders. Norwegian entities and individuals hold 63.5% of the total number of outstanding shares and the 20 largest shareholders hold 70.0% of the outstanding shares.

Through 3Q 2011 a number of investor relation presentations have been given containing ordinary quarterly presentations, the annual Pareto conference, Offshore Europe event in Aberdeen, local events and some 1:1 meetings. The presentations have been followed up by both analyst reports and fairly broad media coverage.

BADGER EXPLORER GROUP

The magnitude of the Badger Explorer Group operations comprises more than 40 people including Calidus engineers and dedicated specialists from the Company's client partners, sub-vendors and various research institutes. The core staff of Badger Explorer ASA consists of 17 people. The Group is seeking more technical and operational staff and the number of employees will increase.

MAIN FIGURES

Revenues for 3Q 2011 amounted to kNOK 1 850 and to kNOK 7 837 as of 30.09.2011, compared to kNOK 3 315 for 3Q 2010 and kNOK 6 327 as of 30.09.2010.

Operating expenses for 3Q 2011 amounted to kNOK 10 867 and to kNOK 28 457 as of 30.09.2011, compared to kNOK 8 421 for 3Q 2010 and to kNOK 19 935 as of 30.09.2010.

EBITDA for 3Q 2011 amounted to kNOK -9 017 and to kNOK -20 620 as of 30.09.2011, compared to kNOK -5 107 for 3Q 2010 and to kNOK -13 608 as of 30.09.2010.

During 3Q 2011 the total project development costs for the Badger tool amounted to kNOK 7 493 of which kNOK 6 876 were capitalized in 3Q 2011. As of 30.09.2011 the total development costs amounted to kNOK 23 072 of which kNOK 20 828 were capitalized.

Application for "Skattefunn" and RCN funding has been filed and approved for 2011. Public grants for the Badger project amount to kNOK 935 for 3Q 2011 and amount to kNOK 2 558 as of 30.09.2011. All public grants are capitalized together with the project costs.

Earnings per share amounted to NOK -0.47 per share for 3Q 2011 and amounted to NOK -1.12 per share as of 30.09.2011.

As of 30.09.2011 cash reserves amount to MNOK 49.9. Cash flow in 3Q 2011 amounted to MNOK -13 compared to MNOK 18.2 in 2Q 2011 (including additional purchase of 25% of shares in Calidus, MNOK 8.3 and sales of shares in liquidity fund of MNOK 43.1, giving a net cash flow of MNOK -16.6). The cash spending for 4Q 2011 is expected to be lower.

CONSOLIDATED SUMMARY (Unaudited figures in NOK 1000)	Quarters			Year to date	
	3Q 2011	2Q 2011	3Q 2010	30.09. 2011	30.09. 2010
Revenues	1 850	2 928	3 315	7 837	6 327
Operating expenses	10 867	9 300	8 421	28 457	19 935
EBITDA	-9 017	-6 371	-5 107	-20 620	-13 608
Earnings per share (figures in NOK)	-0,47	-0,40	-0,39	-1,12	-0,84
Projects development costs	7 493	8 937	5 988	23 072	25 137
Public grants for projects dev.	935	874	50	2 558	375
Cap. of dev. costs and public grants	5 941	7 224	4 773	18 270	20 360

OUTLOOK

The Board emphasizes that the Company has entered a new phase with the first commercial activities planned. Management has been strengthened to enable a much more focused, operational modus operandi for future activities.

The development of specific applications will help establish a substantial and achievable market for the Company. The Company aims to define the first application, and to secure an agreement with a major oil company for the Pilot Project as soon as possible.

As the Company embarks on this new phase in its development, the support and confidence of our sponsors and partners through the third quarter strengthen our positive outlook.

Stavanger, 25 October 2011
The Board of Directors

Badger Explorer ASA

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 Forusskogen 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.

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.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, 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, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

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 3Q 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				Year to date		Year end
	3Q 2011	2Q 2011	3Q 2010	Note	30.09. 2011	30.09. 2010	31.12. 2010
Revenues							
Other Income	1 794	2 910	3 315	4	7 762	6 327	12 056
Public grants	992	893	50	1,13	2 633	375	1 805
Capitalised public grants	-935	-874	-50	2	-2 558	-375	-1 805
Total Revenues	1 850	2 928	3 315		7 837	6 327	12 056
Operating Expenses							
Cost of goods sold	696	348	758		2 008	1 098	3 166
External services for dev. project	5 288	5 583	2 726	4	14 357	12 810	16 889
Payroll and related costs	6 562	6 216	7 129		19 401	18 641	26 244
Other operating expenses	5 198	5 251	2 632	4,10	13 518	8 121	11 286
Capitalised development cost	-6 876	-8 098	-4 823	3	-20 828	-20 734	-26 950
Total Operating Expenses	10 867	9 300	8 421		28 457	19 935	30 634
EBITDA	-9 017	-6 371	-5 107		-20 620	-13 608	-18 578
Depreciation	448	372	292		1 094	881	989
Operating profit (loss)	-9 465	-6 743	-5 398		-21 715	-14 489	-19 567
Net financial	510	-451	-1 660	11	689	-87	487
Profit (loss) before taxes	-8 955	-7 194	-7 059		-21 026	-14 576	-19 080
Tax on ordinary result	0	0	0		0	0	-418
Net profit/loss	-8 955	-7 194	-7 059		-21 026	-14 576	-19 497
Profit (loss) attributable to non-controlling interests	-238	218	178		-215	836	1 408
Profit (loss) attributable to equity holders of the parent	-8 717	-7 412	-7 236	9	-20 811	-15 413	-20 905
Earnings per share	-0,47	-0,40	-0,39		-1,12	-0,84	-1,13
Earnings per share diluted	-0,47	-0,40	-0,39		-1,12	-0,83	-1,13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures in NOK 1000	30.09.2011	30.06. 2011	30.09. 2010	Note	31.12. 2010
ASSETS (Unaudited figures in NOK 1000)	30.09.2011	30.06. 2011	30.09. 2010	Note	31.12. 2010
NON-CURRENT ASSETS					
Capitalised development costs	107 425	101 484	84 370	3	89 156
Patent rights	387	387	387		387
Goodwill	5 661	5 367	5 763	4	5 640
Total intangible assets	113 473	107 238	90 520		95 182
Property, plant & equipment	17 726	16 773	3 477	13	3 642
Total tangible assets	17 726	16 773	3 477		3 642
Investment in shares in liquidity fund	0	0	52 415	11,12	52 616
Sum financial assets	0	0	52 415		52 616
TOTAL NON-CURRENT ASSETS	131 199	124 011	146 412		151 440
CURRENT ASSETS					
Inventories	3 024	2 800	3 904		4 213
Sum Inventories	3 024	2 800	3 904		4 213
Accounts receivables	2 226	4 758	1 926	4	3 959
Other receivables	6 618	7 683	2 776	4,13	2 905
Total receivables	8 844	12 440	4 702		6 864
Cash and cash equivalents	49 926	62 352	50 914		45 888
TOTAL CURRENT ASSETS	61 794	77 593	59 520		56 965
TOTAL ASSETS	192 992	201 604	205 933		208 404
EQUITY AND LIABILITIES (Unaudited figures in NOK 1000)	30.09.2011	30.06. 2011	30.09. 2010	Note	31.12. 2010
EQUITY					
Share capital	2 316	2 316	2 305	4,5,10	2 305
Share premium fund	217 988	217 988	217 100	5	217 100
Other paid in capital	-2 487	-2 540	2 078	4,6,14	2 286
Total paid in equity	217 817	217 764	221 483		221 690
Retained earnings	-66 453	-58 582	-39 884	14	-45 696
Total retained earnings	-66 453	-58 582	-39 884		-45 696
Non-controlling interests	2 831	3 069	5 521	14	6 093
TOTAL EQUITY	154 195	162 251	187 120		182 087
LIABILITIES					
Capitalised grants	19 375	17 935	13 855	7	17 935
Interest-bearing loans and borrowings	8 336	8 174	0	13	80
Total long term liabilities	27 711	26 110	13 855		18 015
Accounts payables	3 762	3 258	2 257	4,10	3 393
Public duties payables	871	1 415	795		2 604
Taxes payables	118	393	201		413
Other short term liabilities	6 335	8 178	1 705		1 893
Total short term liabilities	11 086	13 243	4 958		8 303
TOTAL LIABILITIES	38 797	39 353	18 813		26 318
TOTAL EQUITY AND LIABILITIES	192 992	201 604	205 933		208 404

CONSOLIDATED STATEMENT OF CASH FLOW

Unaudited figures in NOK 1000	Quarters			Year to date		Note	Year end
	3Q 2011	2Q 2011	3Q 2010	30.09. 2011	30.09. 2010		31.12. 2010
Contribution from operations*	-8 964	-6 166	-4 735	-20 159	-12 476		-17 656
Change in accounts receivable and accounts payable	3 035	1 833	-991	2 102	-1 524	4,10	-2 422
Change in other receivables and payables	-1 819	707	224	-109	-2 270		-499
Net cash flow from operating activities	-7 748	-3 626	-5 502	-18 166	-16 270		-20 577
Investments in fixed assets	-1 401	-13 615	-138	-15 178	-1 025	13	-1 297
Investment/sales bank bonds	0	0	0	0	33 782		33 782
Investment/sales in shares in liquidity fund	0	43 087	7 939	52 616	-52 415	12	-52 616
Additional acquisition of shares in subsidiary	0	-8 279	0	-8 279	0	14	0
Capitalisation of development cost	-6 876	-8 098	-4 823	-20 828	-20 734	3	-26 950
Net cash flow from investment activities	-8 277	13 094	2 978	8 330	-40 393		-47 081
Public grants	935	893	50	2 558	375	1	1 805
Contribution from industry partners	1 440	0	0	1 440	0	7	4 080
Other changes in long term receivables and payables	161	8 110	0	8 256	0	13	80
Interest paid	708	726	-1 403	2 339	811	11	-1 018
Interest received	-198	-1 177	-257	-1 651	-898	11	1 505
Increase share capital	0	167	0	899	0		0
Net cash flow from financing activities	3 047	8 719	-1 610	13 842	288		6 452
Total net changes in cash flow	-12 978	18 188	-4 134	4 006	-56 375		-61 206
Net foreign translation differences	552	-14	-490	33	-26		-222
Cash and cash equivalents beginning of period	62 352	44 179	55 538	45 888	107 316		107 316
Cash and cash equivalents end of period	49 926	62 352	50 914	49 926	50 914		45 888
Net result	-8 717	-7 412	-7 236	-20 811	-15 413		-20 905
Profit (loss) attributable to non-controlling interest	-238	218	178	-215	836		1 408
Employee options	53	205	372	461	1 132		1 340
Depreciation	448	372	292	1 094	881		989
Financial income	-708	-726	1 403	-2 339	-811		-1 505
Financial expenses	198	1 177	257	1 651	898		1 018
*Total contribution from operations	-8 964	-6 166	-4 735	-20 159	-12 476		-17 656



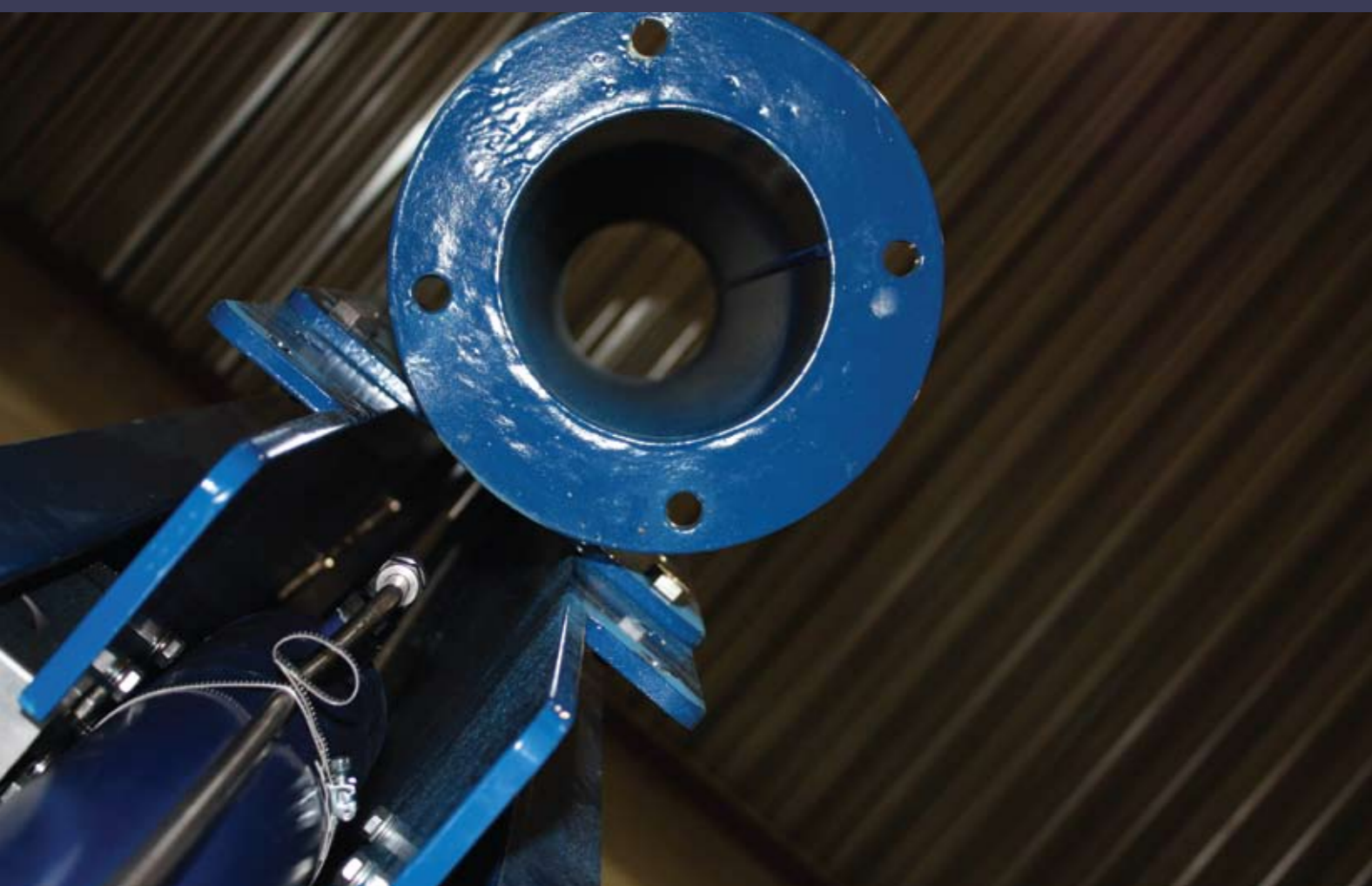
CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

(Unaudited figures in NOK 1000)	Note	Share capital	Share premium fund	Other paid in capital	Retained earnings	Non-controlling interest	Total equity
Equity per 30.09.2010		2 305	217 100	2 078	-39 884	5 521	187 120
Total comprehensive income					-5 812	571	-5 240
Option plan payment				207			207
Equity per 31.12.2010		2 305	217 100	2 286	-45 696	6 093	182 087
Share capital increase		11	888				899
Additional acquisition in subsidiary	14			-5 233		-3 046	-8 279
Total comprehensive income					-20 757	-215	-20 972
Option plan payment				461			461
Equity per 30.09.2011		2 316	217 988	-2 487	-66 453	2 831	154 195

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited figures in NOK 1000	Quarters			Year to date		Year end
	3Q 2011	2Q 2011	3Q 2010	30.09. 2011	30.09. 2010	31.12. 2010
Total comprehensive income	-8 955	-7 194	-7 059	-21 026	-14 576	-19 497
Profit (loss) for the year (period):	-8 955	-7 194	-7 059	-21 026	-14 576	-19 497
Other comprehensive income						
Translation differences	846	-161	-792	54	28	-292
Comprehensive income at end of period	-8 109	-7 355	-7 851	-20 972	-14 549	-19 789

Unaudited figures in NOK 1000	Quarters			Year to date		Year end
	3Q 2011	2Q 2011	3Q 2010	30.09. 2011	30.09. 2010	31.12. 2010
Total comprehensive income attributable to:						
Equity holders of the parent	-7 871	-7 573	-8 029	-20 757	-15 385	-21 197
Non-controlling interest	-238	218	178	-215	836	1 408
	-8 109	-7 355	-7 851	-20 972	-14 549	-19 789



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 2 157 per 30.09.2011.
- 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 was 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 30.09.2011 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 30.09.2011. In 3Q 2011 Mr. David Blacklaw, CEO from 05.10.2011, was granted 370.579 share-options in Badger Explorer ASA at a strike price of NOK19.00 per share. The options must be exercised three to ten days after the presentation of the 3Q 2014 report. 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 during 2011. Next exercise window will be after the presentation of 3Q 2011 report.
- The Group has received contribution from the three industry partners amounting to a total of NOK 19 375 200 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.

30.09.2011 - Business segments	Badger Explorer	Badger Plasma	Engineering	Other	Elimination	Total
Unaudited figures in NOK 1000						
Total revenue	0	0	9 624	333	-2 121	7 837
Segment profit (loss)	-2 157	0	-646	-18 008	0	-20 811
Total assets	104 657	5 899	34 542	56 410	-8 516	192 992

30.09.2010 - Business segments	Badger Explorer	Badger Plasma	Engineering	Other	Elimination	Total
Unaudited figures in NOK 1000						
Total revenue	0	0	10 336	227	-4 235	6 328
Segment profit (loss)	-4 403	0	836	-11 846	0	-15 413
Total assets	81 147	5 899	20 596	106 754	-8 464	205 932

3Q 2011 - Business segments	Badger Explorer	Badger Plasma	Engineering	Other	Elimination	Total
Unaudited figures in NOK 1000						
Total revenue	0	0	2 580	115	-845	1 850
Segment profit (loss)	-529	0	-715	-7 473	0	-8 717

3Q 2010 - Business segments	Badger Explorer	Badger Plasma	Engineering	Other	Elimination	Total
Unaudited figures in NOK 1000						
Total revenue	0	0	3 687	204	-576	3 315
Segment profit (loss)	-1 165	0	177	-6 249	0	-7 237

10. Related party transaction

Unaudited figures in NOK 1000

Transaction with shareholders	30.09.2011	30.09.2010
Accounts payable*	232	294
Purchased services*	2 111	4 245

*The Company has purchased engineering- and production services from Calidus Engineering Ltd. in which Badger Explorer ASA owns 75% and Nigel Halladay (CEO of Calidus Engineering Ltd.) owns 25% of the shares. Nigel Halladay also owns 77 500 shares in Badger Explorer ASA.

Shares held by members of the board and Management group	30.09.2011	30.09.2010
SIX SIS AG 25PCT (Board Director - Marcus Hansson)	500 000	500 000
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	301 872	301 872
Executive Vice President - 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 (Executive Vice President - 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
Ordinary shares	1 377 520	1 359 852
% 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 30.09.2011	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 as financial cost in P&L in connection with sale of financial assets of which NOK 1 062 731 has been realized as financial cost in P&L in 2011.

12. Fair value hierarchy

As at 30.09.2011 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 is recognised in other receivables and 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

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 non-controlling 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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