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BOARD OF DIRECTORS' REPORT FOR 2010

Badger Explorer ASA develops the "Badger Explorer", a revolutionary tool to identify oil & gas reservoirs at substantially lower costs and with less complexity than utilizing a traditional drilling rig. Compared to the existing exploration methods the Badger Explorer will lower the risk of environmental pollution and reduce disturbances associated with traditional exploration. The Badger Explorer idea originated at IRIS in 1999. The Company was established in 2003 and listed at the Oslo Stock Exchange (Oslo Axess list) in 2007.

Badger Explore ASA's head office is located at Jåttåvågveien 7, 4020 Stavanger/Norway and is organised under the laws of Norway. Badger Plasma Technology AS, a wholly owned subsidiary, is also situated at Jåttåvågveien 7, 4020 Stavanger/Norway. Calidus Engineering Ltd., the Company's 50% owned subsidiary, has its headquarters at Unit 7A, Tregoniggie Industrial Estate, Falmouth, Cornwall TR11 4SN, UK.

Badger Explorer ASA has made significant progress throughout 2010. Last year's main task was the performance of a closed cavity drilling test and thus the demonstration of the Badger Explorer concept in full scale. Successful tests took place at the test site at Brumunddal leading to the approval of the concept by the three sponsoring oil companies on 7 December 2010.

The concept demonstration and verification are the main purpose of the so-called Prototype Program. Funding participants in addition to Badger Explorer ASA are the Research Council of Norway (RCN), ExxonMobil, Shell and Statoil. It has been agreed to perform two additional tests during 1H 2011 to conclude the Prototype Program and the prototype phase. The first test is a drilling and compaction test in a clay/shale formation and the second test is a complete burial test in open-hole at the Brumunddal test site.

Upon completion of the prototype phase the Company will enter the pre-commercial phase. The main objectives will be the development of commercial versions of the Badger Explorer and the initiation of work regarding contracts with oil companies for the deployment and testing of pilot versions of the tool.

The challenging pre-commercial phase will be conducted in close co-operation with sponsoring oil companies, public grant authorities, selected suppliers along with other co-operating parties.

In 2010 Badger Explorer ASA has retained its solid financial position and strengthened its organization. The Company is working towards sponsor agreements for the pre-commercial phase and subsequent pilot version contracts which will put BXPL in a favourable position for reaching its main objective - commercialization of the Badger Explorer.

The Badger Explorer prototype tool, the Demo50 version 2, has undergone major operational and performance improvements the previous year. Advanced modelling of the tool's operations and its efficiency is also under constant development in order to support and analyse the data of the physical tests.

The organization will take full advantage of the valuable results gained in 2010 in order to continuously solve the remaining technical challenges related to the next generation of the Badger Explorer tool, the Demo125 version to be developed in the pre-commercial phase. The development program is well under way and several solutions and functions of the current version of the tool will be used in the Demo125 version. As planned some parts of the tool will have to be redesigned and further developed based on gained experience, results and learning of the prototype testing.

The Board of Directors and the Management are proud of the 2010 achievements and believe that a solid foundation has been developed to achieve the Company's goal of commercializing the Badger Explorer tool.

Badger Plasma Technology AS

Badger Plasma Technology AS was established in March 2007 to develop the plasma technology for the use as a new drilling method and in addition as a more efficient method of scale removal in producing oil and gas wells as scale is a large challenge in the industry.

A technical study supported by the Research Council of Norway, Shell and Statoil was performed and completed by summer 2008. This study concluded that plasma technology could not compete with conventional drilling methods or applications for well cleanup. In 2009 the company decided to terminate the development of plasma technology.

However, after the completion of the technical study it has become clear that several of the technologies that were developed might have commercial applications in other areas. The company has contacted potential partners to enhance and further develop these technologies. It is expected that they will provide future revenues for the company.

The company has been granted a Norwegian patent related to the plasma technology. Furthermore, a PCT (Patent Cooperation Treaty) application has been filed for an international patent.

The company has not had any revenue or activity in 2010. The company has equity of 22.9% and the liquidity is good.

The CEO of Badger Explorer ASA, Mr. Kjell Erik Drevdal, is acting CEO of the subsidiary.

Calidus Engineering Ltd. (UK)

Calidus Engineering Ltd. (Calidus), Cornwall, UK, is co-owned by Badger Explorer ASA (50%) and its founder Mr. Nigel Halladay (50%).

Calidus employs 27 multi-disciplined specialists within high-temperature systems and has an in-house machine shop for designing and building prototypes and components.

Calidus is an important contributor to the Badger Explorer development work. Throughout 2010 27% of the Calidus turnover was related to the Badger Explorer development project, compared to 47% in 2009. Calidus contributions during the pre-commercial phase are expected to increase.

Calidus has a solid financial position with a turnover of MNOK 15.8 in 2010 (MNOK 16.9 in 2009) and a net result before tax (EBT) of MNOK 3.2 (MNOK 3.4 in 2009). The equity ratio is 88.6%, compared to 91.5% a year ago.

In 2011 Nigel Halladay has the right to sell additional 25% of his shares in Calidus to Badger Explorer ASA at a price equation that is pre-defined in the shareholder agreement.

Board of Directors

The Board of Directors consists of five members, three male and two female. Therefore the female representation equals 40%. Twelve Board meetings took place during the financial year 2010.

The Board organized its work through three different committees that have been appointed.

- Compensation Committee:
  Rolf E. Ahlqvist and Tone Kvåle
- Audit Committee:
  Rolf E. Ahlqvist and Tone Kvåle
- Strategy Committee:
  Rolf E. Ahlqvist, Christian Bull Eriksson and Kristine Holm

The Board conducts an annual evaluation of its joint work.

As of 4 October 2010 Board member Bjørge Gretland resigned. At the Extraordinary General Meeting on 1 December 2010 Marcus Hansson was elected as a new Board member.

Accounting policies

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

Financial status

The Badger Explorer Group consists of the parent company Badger Explorer ASA, the wholly owned subsidiary Badger Plasma Technology AS and the 50% owned subsidiary Calidus Engineering Ltd., UK.

Operating revenues

Total operating revenues for the Badger Explorer Group amounted to kNOK 12 056 for 2010 compared to kNOK 8 978 for 2009 which is a growth of 34.3% from 2009 to 2010. The total operating revenue for Badger Explorer ASA amounted to kNOK 525 for 2010 compared to kNOK 96 for 2009.

Calidus Engineering Ltd. accounts for 95.6% of the total operating revenues in Badger Explorer Group for 2010 and 98.9% for 2009.

Operating expenses

Total operating expenses for Badger Explorer Group amounted to kNOK 31 623 for 2010 compared to kNOK 25 810 for 2009 which is a growth of 22.5% from 2009 to 2010. The total operating expenses for Badger Explorer ASA amounted to kNOK 23 152 for 2010 compared to kNOK 20 321 for 2009.

Development cost

In 2010 the Badger Explorer Group has spent kNOK 32 540 on development projects of which kNOK 26 950 were capitalized compared to kNOK 36 003 of which kNOK 30 561 were capitalized in 2009. All development costs in 2009 and 2010 are related to the development of the Badger Explorer technology in Badger Explorer ASA. Public grants from the Research Council of Norway and pledged tax reduction from Skattefunn amounts to kNOK 1 805 for 2010 and kNOK 1 977 for 2009 and are deducted in the carrying amount of the related asset.

Net financial items

Net financial items for the Badger Explorer Group amounted to kNOK 487 for 2010 compared to kNOK 5 909 for 2009. Net financial items for Badger Explorer ASA mounted to kNOK 286 for 2010 compared to kNOK 6 050 for 2009. The decrease of 95,3% in financial items for Badger Explorer ASA is related to decrease in interest rate in 2010 and loss related to investment in shares in liquidity fund at fair value through profit and loss. Ref. note 3 and 15.

Performance

Net loss attributable to equity holders of the parent for Badger Explorer Group is kNOK - 20 905 for 2010 compared to kNOK -12 730 for 2009. Loss before tax is kNOK -19 080 for 2010 compared to loss before tax of kNOK -10 923 for 2009. Tax expenses of kNOK -417 for 2010 and kNOK -235 for 2009 are related to Calidus Engineering Ltd., UK. Ordinary earnings per share in Badger Explorer Group amounted to -1.13 in 2010 and to -0.69 in 2009.

Net loss in Badger Explorer ASA is kNOK - 22 340 for 2010 compared to net loss of kNOK -14 174 for 2009. Badger Explorer ASA is not jet generating profit and thus not in a tax position which results in earnings before tax equals net loss for both 2010 and 2009. Ordinary earnings per share in Badger Explorer ASA amounted to -1.21 in 2010 and to -0.77 in 2009.

Statement of financial position and cash flow

Total assets for the Badger Explorer Group amount to MNOK 208.4 per 31.12.2010 and to MNOK 220.0 per 31.12.2009. Total assets for Badger Explorer ASA amount to MNOK 195.3 per 31.12.2010 and to MNOK 210.3 per 31.12.2009.

Total equity for the Badger Explorer Group amounts to MNOK 182.1 which gives an equity ratio of 87.4% per 31.12.2010 and to MNOK 200.5 which gives an equity ration of 91.1% per 31.12.2009. The total equity for Badger Explorer ASA amounts to MNOK 175.3 which gives an equity ratio of 89.8% as of 31.12.2010 and to MNOK 196.3 which gives an equity ration of 93,3% per 31.12.2009

Total intangible assets for the Badger Explorer Group amount to MNOK 95.2 per 31.12.2010 and to MNOK 70.1 as of 31.12.2009. Total intangible asset for Badger Explorer ASA amounts to MNOK 83.6 per 31.12.2010 and to 58.5 as of 31.12.2009. The increase of total intangible asset of 35.8% in the Badger Explorer Group and 42.9% in Badger Explorer ASA is mainly related to capitalized cost for the Badger Explorer development project.

Deferred tax assets is not recognized in the statement of financial position as Badger Explorer ASA is in a development phase and is currently generating losses.

As of 31.12.2010 the share capital in Badger Explorer ASA is kNOK 2 305 divided between a total of 18 439 040 shares at a nominal value of NOK 0.125 per share. There have not been any changes in share capital or number of shares in 2010.

For the Badger Explorer Group the net cash flow for 2010 was MNOK -61.2 giving net cash position of MNOK 45.9 as of 31.12.2010 and MNOK -29.6 for 2009 giving net cash position of MNOK 107.3 as of 31.12.

For Badger Explorer ASA the net cash flow for 2010 was MNOK -58.6 giving net cash position of MNOK 40.8 as of 31.12.2010 and MNOK -32.0 for 2009 giving net cash position of MNOK 99.4 as of 31.12.2009 for Badger Explorer ASA.

Cash position including shares in liquidity fund and bank bonds is MNOK 98.5 as of 31.12.2010 and MNOK 141.1 as of 31.12.2009 for Badger Explorer Group and MNOK 93.4 as of 31.12.2010 and MNOK 133.1 as of 31.12.2009 for Badger Explorer ASA.

The Board states that the annual accounts represent a true and fair view on the Company's financial position at the turn of the year. According to the Accounting Act § 3-3 (a), the Board of Directors confirms that the requirements for continued operation of the business are fulfilled and that the annual accounts are prepared on this presumption.

The reason for this presumption is last year's approval of the concept, the forthcoming completion of the prototype phase and the fact that the Company is entering the pre-commercial phase being supported by equity and sponsor contributions.

Market analysis and application studies being performed by the Company support this presumption.

Personnel and organization

The Company emphasizes the importance of a balance and distribution of gender, equal compensation for similar work and equal opportunities for everyone in the development and running of the Company.

As of 31.12.2010 Badger Explorer ASA had 16 permanent employees, 4 of whom are female. In Badger Explorer ASA 12.5% of all employees were foreign employees as of 31.12.2010 and 26.3% of all employees were foreign employees as of 31.12.2009.

The Management group in Badger Explorer ASA consisted of 14.3% foreign employees and 14.3% female employees as of 31.12.2010 and 16.7% foreign employees and 16.7% female employees as of 31.12.2009.

The average salary for male employees in Badger Explorer ASA amounts kNOK 1 038.8 and to kNOK 508.6 for female employees as of 31.12.2010 and to kNOK 929.2 for male employees and to kNOK 487.8 for female employees as of 31.12.2009.

Calidus Engineering Ltd had 27 employees, 25 male and 2 female.

Through separate agreements and via cooperating companies and various suppliers additionally 30 people are involved in the Group's development project.

To succeed the Company is dependent upon engaging the best competence available. Hence competence is sourced when obtainable without preference for gender, race, religion, political and/or sexual predilection.

The Board would like to thank the employees of the Badger Explorer Group for their contributions to the strong progress of the Company during 2010.

Safety, health and work environment

The Board of Directors works steadily to ensure that safety, health and the environment is handled in a manner that promotes considerable job satisfaction and a good working environment.

The work environment is considered to be sound and the absence due to sickness was at 2.35% in 2010 compared to 2.7% in 2009.

Neither serious injuries nor accidents have been reported during the last two years.

External environment

The Company does not pollute the external environment.

When completed the Badger Explorer tool the Company will introduce a revolutionary new method for identifying oil & gas resources at substantially lower risk for environmental pollution. The tool will also reduce disturbances associated with traditional exploration activities and will have environmental benefits in remote and sensitive areas.

The Board takes on the responsibility for the Group's impact on the environment. It's the responsibility of the Company's Management to set and follow up environmental goals as well as to comply with legislation and regulations.

Corporate governance

The Board approved the Company's latest version of the Corporate Government Policy on 30 March 2011.

As a public limited company listed on the Oslo Stock Exchange quarterly reports are published for owners, the stock exchange and the market. In addition a number of notifications on various subjects have been issued and published during the year.

Sound corporate governance generates growth and long-term assets to benefit shareholders, employees and other stakeholders. Therefore the Board continuously strives towards building confidence in the Company through recommended corporate governance-, accounting- and Oslo Stock Exchange standards.

The Board of Directors puts a lot of effort in transparency and openness, equal treatment of all shareholders, competence in the Company's governing bodies, independent auditors as well as that the information distributed by the Company reflects a correct description of the Company's status and operations.

The Board aims to ensure that the Company operates with enough cash equivalents and equity to support the Company's strategy, goals and risk at all times and that the management of the Company is conducted according to good and sound business practices.

Risk considerations

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

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

The Company is focusing on the following risk elements:

Technology in relation to the Badger Explorer

The development work has been challenging. The time schedule estimates a commercial service, a pilot version contract, to be launched approximately 18 months after start-up of the pre-commercial phase. However, there is risk tied to the fact that the development of a commercial version of the Badger Explorer could be more extensive than planned for and could result in a longer development time of the services to be provided by Badger Explorer ASA.

The secured access to high quality sensors and logging tools is regarded as a major step forward in the development of a commercial service. State-of-the-art technology is offered in combination with communication systems and software for underground analysis. Adjustments are expected in order to custom design the sensors and logging system to fit the commercial version of the Badger Explorer tool.

Competing technologies

No competitors to the Badger Explorer and its future closed cavity operations have been identified. However, these could appear and the time for the market introduction of the tool will be of vital importance for the market positioning and the profit potential of the technology. Simultaneously, it is necessary to spend the time needed to develop robust solutions and not compromise on quality and reliability.

The market

The Company considers the market for Badger Explorer services to be large and increasing. A study is being conducted to identify specific markets split on companies, geographical regions, underground structures and a variety of Badger Explorer applications. This market mapping aims at highlighting potential customer advantages and savings. Both market mapping and customer approach will be reflected in the Company's value proposition to potential clients and will be a part of the future business plan.

The sponsor agreements with ExxonMobil, Shell and Statoil consist of (i) a prototype program agreement and (ii) extended partner agreements for the additional support. The extended agreements give the Company's three sponsors first right of refusal to buy the full manufacturing capacity of Badger Explorer at market price for a period of three years from the time of commercialization, thus securing the Company market introduction of it's services.

The Company's business is considered to be so robust that even a considerable drop in the rig rates should not considerably influence BXPL's economic situation

Market awareness and attention indicates high interest in the Badger Explorer concept.

Authorities' permission

When introducing new concepts with considerable challenges and new routines, the authorities require extensive and convincing qualifications that demonstrate operational safety. The Company is working actively within this field and has opened a dialogue with relevant governmental bodies and authorities.

Environmental aspects

The Badger Explorer technology is a non-polluting alternative to explore for hydrocarbons. Sustainable environmental solutions and efforts to conserve the environment are the basis for the Company's business concepts. The non-polluting services Badger Explorer ASA will offer should be a strong incentive for the authorities, professional players within the industry and other stakeholders to have the technology commercialized. Hence, all these groups will have a common interest in the Badger Explorer being realized and introduced to the market as soon as possible.

Foreign currency risk

As a result of the acquisition of 50% of the shares in Calidus Engineering Ltd. in UK, the Group's balance sheet can be affected up to a certain extent by the fluctuations in the GBP/NOK exchange rate. The Group has a very limited number of other transactions in foreign currency which consequently gives a low currency risk.

Badger Explorer ASA's cash reserves are deposited in Norwegian banks and Calidus Engineering Ltd's cash reserves are deposited in British banks whereas a very low percentage of the cash is deposited in other currency than the operating currency which gives a low currency risk. All of the Group's financial instruments are in NOK and thus no foreign exchange risk incurs. When commercial operations in larger scale commence a currency policy will be introduced.

Interest rate risk

The Company has no interest-bearing debt. The bank deposits are exposed to changes in market interest rate and this change will affect the financial income and the return on cash. However, the interest risk is considered to be low.

Market risk

The Company has invested MNOK 53.9 in First Norway Alpha KL IV, a Norwegian market based liquidity fund where the nominal value of the fund is deposited on overnight NIBOR contracts with Norwegian banks. Interest earnings of the fund are invested in share options. The market risk is related to the at all time distribution of share options and the market value and return of these. The values of the shares are monitored on a daily basis. The shares are not under any contractual obligation besides a 3 days notice for settlement when selling the shares. The Company aims to earn interests equivalent to the market rate at any time.

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers that wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company has experienced a loss of NOK 8 323 on receivables during the last 2 years. All cash in the Company is deposited and distributed between two Norwegian banks which are considered to be a risk-reducing initiative.

Calidus Engineering Ltd., the 50% owned entity, invoices a limited number of large international customers in Pound Sterling and Euro. The credit risk on receivables in Calidus is therefore regarded to be limited.

Liquidity risk

The Company has a solid liquidity situation and considers the liquidity risk for the next couple of years to be non-existing at the current cash burn rate.

Allocation of the 2010 result

The Board of Directors recommends that Badger Explorer ASA's annual result for 2010 totalling kNOK -22 340 is transferred to other paid-in capital. Distributable equity in Badger Explorer ASA amounts after this to MNOK -127.4.

Significant events after 31 December 2010

Participants in the Company's share option program have on 4 March 2011 exercised a total number of 73 249 options out of 135 747 exercisable share options. Following the share option exercise the Board of Directors has, pursuant to authorization granted by the Company's Annual General Meeting on 21 April 2010, resolved to increase the Company's share capital.

Badger Explorer ASA's share capital increase has been registered in the Norwegian Registry of Business Enterprises (Foretaksregisteret) on 18 March 2011. The Company's new share capital amounts to NOK 2 314 036 divided into 18 512 289 shares each with a nominal value of NOK 0.125. Through the issue of 73 249 new shares at a price of NOK 10.00 each the Company's equity increased by NOK 732 490.

Outlook

The Company's Board of Directors evaluates the risk factors described above as manageable. The main risk is tied to the technological development, its progress and funding contributions by sponsors.

Even though the development tasks are demanding, no specific challenge is known that could prohibit the market introduction of Badger Explorer services. The development program will continue throughout 2011 in line with previously communicated plans.

The approval of the concept by the sponsors on 7 December 2010 strengthens the Board's belief that the Company will succeed in delivering commercial services.

The advanced prototype robotic system that has been developed and successfully tested in 2010 provides a unique platform for qualifying the complex design solutions required to introduce a Badger Explorer commercial service.

A considerable volume of new knowledge and technology with ground breaking potential representing a significant value has been developed.

Badger Explorer ASA has developed into a technology company with multi-discipline research and engineering resources of high quality. The Company expects that many of the technological solutions developed specifically for the Badger Explorer tool also can be applied to other industrial applications. The scope of the pre-commercial development work in 2011/2012 comprises further development of the Demo125 tool which includes further development of basic infrastructure, the process system, testing and test facilities and next generation modules. The overall objective is the development of a higher specification tool to be able to reach significant subterranean depth and provide the basis for future commercial services.

Responsibility statement

We confirm, to the best of our knowledge that the financial statements for the period 1 January to 31 December 2010 have been prepared in accordance with IFRS accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole.

We also confirm that the Board of Directors' report includes a true and fair review of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

Rolf E. Ahlqvist (Chairman of the Board)	Christian Bull Eriksson (Board member)	Marcus Hansson (Board member)
Kristine Holm (Board member)	Tone Kvåle (Board member)	Kjell Erik Drevdal (President & CEO)

Stavanger, 30 March 2011
The Board of Directors and the Chief Executive Officer
Badger Explorer ASA

Badger Explorer ASA experiences sponsor support and has a solid cash position. The cash spending policy is rigid. The Badger Explorer team is dedicated and optimistic which in total enables the Company to progress its development program uninterrupted.

The Board sees a substantial potential for the Company's products and services.

With that the Board of Directors is positive regarding the future of the Company with respect to the results to be obtained during the upcoming pre-commercial phase.

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Stavanger, 30 March 2011
The Board of Directors and the Chief Executive Officer
Badger Explorer ASA