BADGER
EXPLORER

Annual Report 2010

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Message from the CEO

Dear fellow shareholders,

2010 started of as one of the coldest years in decades and ended as the most rewarding year for us in Badger Explorer ASA to date. All though the extreme cold slowed down the progress of the full scale testing of the Badger Explorer tool in the beginning of the year, spring came with warm weather and made it possible to conduct a successful “proof of concept” test in April 2010 in Brumunddal red sandstone.

This “proof of concept” test was performed in a closed cavity artificial wellbore, which proved the principles of the technology by drilling in open hole and separate, compact and form a plug inside a steel pipe above ground level, which we at that time considered a big achievement and gave us a reason to celebrate.

However, while this was a small step towards our ultimate goal, it was an important step that convinced us that we are on the right track and motivated us to continue. To push the limit further, we agreed with our funding client partners ExxonMobil, Shell and Statoil, that to fulfill milestone 2 in our contractual commitment, we needed to bury the tool below ground level and under water.

During the summer, several modifications where made to the tool, based on the experiences we gained from the tests during the spring. This proved to be helpful in our next effort. In October 2010, we managed to drill the Badger Explorer into the ground, form a solid plug and bury the tool under water. The results where presented to our partners and they decided unanimously to approve this as “proof of concept” and as the contractual Milestone 2, which again released more funding and gave us another reason to celebrate. These achievements are all to be considered winning important battles, which again will lead to total victory in the end. However, there are still more battles to be won and challenges to be overcome before the victory of the war can be declared.

Throughout 2010 Badger Explorer ASA has continued to establish and maintain important co-operation relationships, with both technology providers and potential business partners.

After the slowdown of the global economy in 2008 and 2009, 2010 became the turn-around, which has been led to an increased attention to and awareness of the Badger Explorer technology.

The close co-operation we have with our partners ExxonMobil, Shell and Statoil has continued. Active support from client partners will continue to be important for the development and commercialization of Badger Explorer. In return for an increased and extensive contribution our partners will be awarded beneficial rights of the use of Badger Explorer.

In parallel with the oil companies struggle of enhancing the recovery rate from existing fields they are into long term planning to explore for and find new reserves to replace the volume produced at all times. Therefore they have to explore new areas and develop cost efficient solutions to cope with variable prices in the future. In this hunt for new reserves, the Arctic areas are high on their priority list. The environmental issues in this regard are however on everybody’s priority list. The long-term consequences of the Macondo incident will maybe not be as severe as initially anticipated due to the nature’s ability to degrade oil in warm areas. This is however not the case in Arctic, where the climate is much colder, the degrading is going much slower and the nature and the wildlife is much more vulnerable. In these areas, the Badger Explorer will provide considerable cost savings, higher safety and less impact to the environment than any alternative solutions in the market today. This is a strong driver for the industry and for us to succeed with this unique technology.

The 50% ownership and co-operation with Calidus Engineering Ltd. has provided valuable support in the design and manufacturing of vital parts of the Badger Explorer prototype. Our ambition is to further develop this relationship and work closer with Calidus Engineering in the future.

Looking at the Badger Explorer project going forward we are now moving into a pre-commercial phase and will put a lot of effort in securing further financial support from client partner to develop the Demonstrator125 version and to enter into a pilot project contract. Our commitment to deliver value to our customers is our main goal.

I am very pleased that with the extensive operational test activity ongoing in 2010 we managed another year without any accidents or serious incidents.

Badger Explorer ASA is still in a strong financial position and will benefit greatly from this also in 2011. We are all optimistic about our work, which is continuously moving in the right direction. Knowing that the world is waiting for our service, gives us an extra inspiring incentive drive.

Sincerely

Kjell Erik Drevdal
President & CEO

Key figures

Key Figures Badger Explorer Group	2010	2009
Selected items from Statement of Comprehensive Income (NOK 1000)		
Total revenues	12 056	8 978
Public grants	1 805	1 977
Capitalised development cost	-26 950	-30 561
Total operating expenses	31 623	25 810
EBIT	-19 567	-16 832
Net profit (loss)	-19 497	-11 158
Profit (loss) attributable to non-controlling interest	1 408	1 572
Profit (loss) attributable to equity holders of the parent	-20 905	-12 730
Earnings per share (NOK)	-1,13	-0,69
Selected items from Statement of financial position (NOK 1000)		
Capitalised development costs	89 156	64 010
Total non-current assets	151 440	73 440
Total current assets	56 965	146 587
Total assets	208 404	220 027
Total equity	182 087	200 536
Equity ratio	87,4 %	91,1 %
Total liabilities	26 318	19 491
Selected items from Statement of cash flow (NOK 1000)		
Net cash flow from operating activities	-20 577	-11 462
Net cash flow from investment activities	-47 081	-26 025
Net cash flow from financing activities	6 452	7 886
Total net changes in cash flow	-61 206	-29 601
Cash and cash equivalents at end of period	45 888	107 316
Number of employees	**43**	**40**

Main events 2010

28 April 2010 **Successful groundbreaking demonstration of the Badger Explorer concept**

The Badger Explorer's successful closed cavity drilling was the world's first operation of its kind. During this test the Badger Explorer prototype operated for an extended period of time. The tool drilled several meters, the cuttings were transported and separated inside the tool and then compacted at the rear end of the tool, forming a plug whilst operating in a closed cavity. The tool was powered and controlled through a cable and not visible whilst drilling.

1 June 2010 New member of BXPL's management group
Mr. Thor Arne Håland joined BXPL as Manager Quality, Risk & Supply Chain.

4 October 2010 Mr. Bjørge Gretland resigned as member of the Company's Board of Directors.

18 October 2010 **Full scale proof-of-concept test performed at the test site at Brumunddal**
This test was done with the Badger Explorer tool drilling, processing the drill fluid and compacting solids into a plug below ground level. The complete tool was fully submerged in water whilst operating.

1 December 2010 Extraordinary General Meeting
Mr. Marcus Hansson was elected BXPL's new Board member and Mr. Bjørge Gretland was elected member of the Company's Nomination Committee.

New member of BXPL's management group
Dr. Wolfgang Mathis was appointed BXPL's Product Manager.

7 December 2010 **Steering Committee of the Badger Explorer Prototype Project unanimously approved Milestone 2**

The results of the full scale proof-of-concept test, carried out at the test site at Brumunddal in October, were approved by the Steering Committee, consisting of ExxonMobil, Shell and Statoil.

The approved Milestone 2 consisted of a full scale verification of the Badger Explorer concept. The tool has in an autonomous operation drilled in a sandstone formation, transported and separated cuttings as well as compacted the same into a solid plug behind the tool below the water table.

The Badger Explorer concept

What is the Badger Explorer?

The Badger Explorer will become an autonomous drilling machine, a rig less “fly by wire” exploration tool.

- Drills into the underground and buries itself
- Slim electrically powered drilling system
- Carries sensors which continuously record formation and underground physical data
- Non-reusable exploration tool that remains in the underground

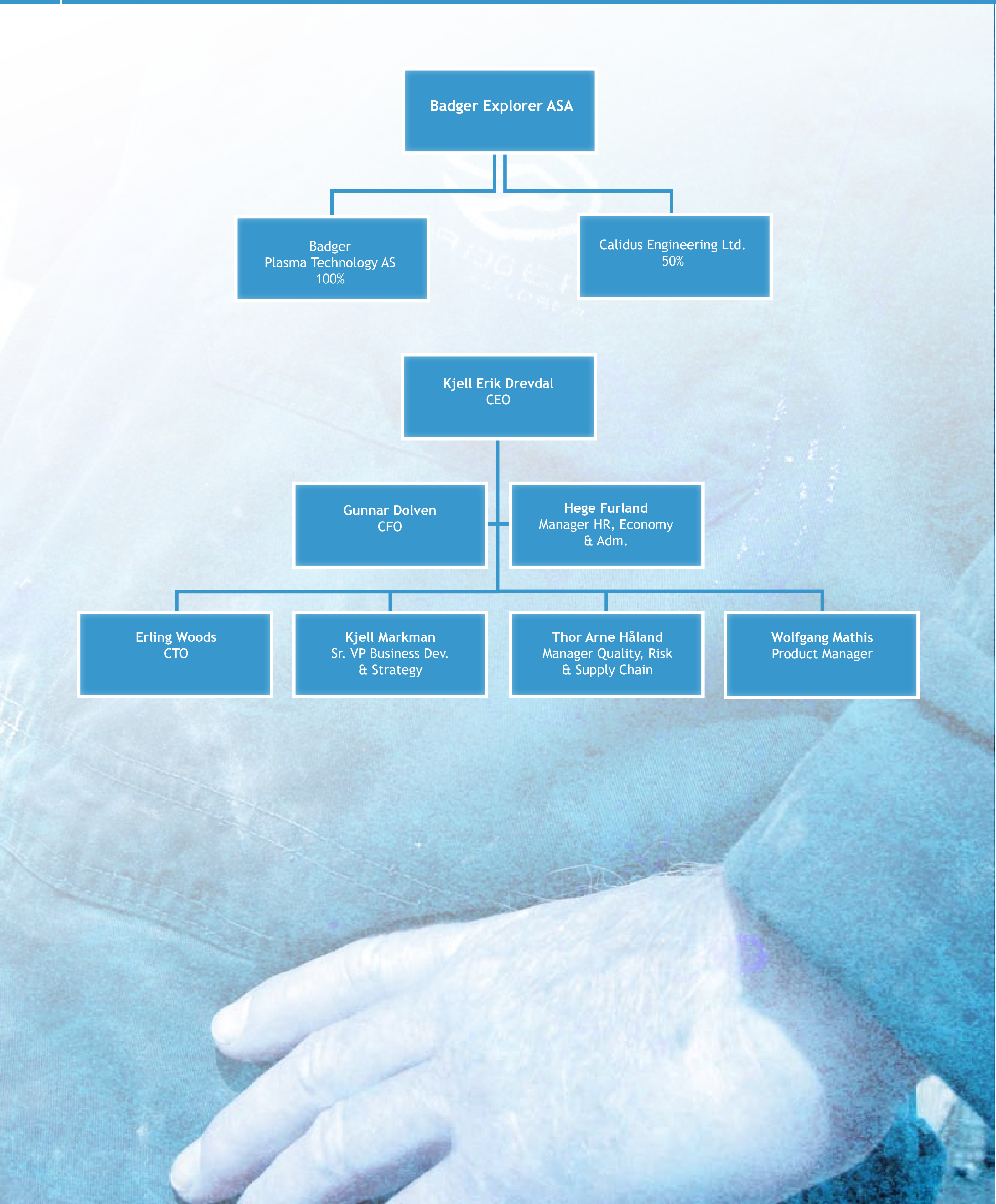
The Badger Explorer consists of the following main functions:

- Drill bit driven by an electro-motor and gear
- Cutting transport, separation, deposition, compression and fracture injection process devices
- Spooled cable - power supply and data transfer
- Formation evaluation logging package

Revolutionary technology with HSE benefits

- No use of large drilling rigs and all the related logistics necessary which will reduce the impact and disturbances to the wild life, fisheries and the surrounding environment
- Minimal emission to air and sea - neither through polluted drill cuttings nor through CO2 emission from power generation since the Badger Explorer buries itself in the underground
- A self-contained operation with only small vessel assistance which will reduce the safety hazard for personnel and avoid fuel consumption during operations
- Minimized risk for uncontrolled blow-out
- Substantial cost reduction vs. current methods
- Higher quality and volume of collected data
- Faster mobilisation and data collection
- Longer and wider operational window in arctic areas

Company's structure & organization



Company's history

The Badger Explorer technology is based on an idea by Research Director Sigmund Stokka and his team at IRIS (International Research Institute of Stavanger). IRIS has more than 20 years of R&D experience within drilling and well technology. To protect the idea patent applications were filled in Norway as well as in the USA and awarded in 2000 (Norway) and 2006 (USA).

The Company was incorporated in 2003 and the Badger Explorer technology patent was transferred to the Company.

In April 2005 BXPL entered into Prototype Development Agreements with the major oil companies ExxonMobil, Shell and the Norwegian oil company Statoil. These contracts allow for funding and co-operation throughout the Company's prototype development phase. These agreements with BXPL's partners were extended in 2008 facilitating BXPL with additional support.

12 June 2007 marks an important date in the Company's history - Badger Explorer ASA was listed on the Oslo Stock Exchange (Oslo Axess list) with the ticker "BXPL".

Badger Explorer ASA expanded through the acquisition of 50% of Calidus Engineering Ltd. in November 2007. The parties have agreed upon an acquisition model through which Badger Explorer ASA can acquire 100% of Calidus Engineering Ltd. gradually until 2013.

On 28 April 2010 BXPL proudly announced the successful demonstration of the Badger Explorer concept at the test site at Brumunddal, Eastern Norway. The Badger Explorer's successful closed cavity drilling was the world's first operation of its kind and the Company acknowledged it as ground-breaking as well as the proof of the Badger Explorer concept.

During the weekend of 15 -17 October 2010 another successful closed cavity drilling test below ground level with the tool being fully submerged has been performed at the test site at Brumunddal.

On 7 December 2010 the Company informed the marked that the Company's Steering Committee, consisting of representatives of ExxonMobil, Shell and Statoil, has unanimously approved the results of the full scale proof-of-concept test, carried out at the test site at Brumunddal in October 2010 as Milestone 2 of the Prototype Development Project. The Steering Committee that is headed by ExxonMobil also approved the disbursement of funding in the amount of MNOK 4.05. The disbursement of funding is connected to having achieved Milestone 2.

Shareholder information

Badger Explorer ASA is a Norwegian public limited company with its headquarters in Stavanger, Norway. The Company's shares are listed on the Oslo Stock Exchange (Oslo Axess list) with the ticker "BXPL".

Shareholder policy

BXPL's main objective is to develop the Badger Explorer tool, a revolutionary new method to identify oil & gas reservoirs at substantially lower costs and with less complexity than utilizing a traditional drilling rig. The Company has a long-term shareholder policy to maximize the shareholders' return on investments over time through a combination of dividends and increase in the share price/value.

BXPL provides its shareholders, Oslo Børs/Oslo Stock Exchange and the financial market in general with timely and accurate information. Such information takes the form of annual reports, quarterly interim reports, press releases, stock exchange notifications and investor presentations as applicable. BXPL seeks to clarify its long-term potential, including its strategy, value drivers and risk factors. The Company maintains an open and proactive investor relations policy, a best-practice website and regularly gives presentations in connection with annual and interim results in Oslo and Stavanger/Norway and London/UK.

BXPL has one class of shares and is dedicated to apply equal treatment to all shareholders. Each share carries one vote at the Company's General Meetings.

Dividends and earnings per share

BXPL's dividend policy aims to yield a competitive return of invested capital to the shareholders through a combination of dividends and share price development. Because of the Company's development and the fact that no profit has yet been drawn no dividend has so far been proposed.

Share price trends during 2010

By year end the number of outstanding BXPL shares amounted to 18 439 040, each with a nominal value of NOK 0.125. As of 31 December 2010 Badger Explorer ASA had 861 shareholders. During 2010 the share price varied between NOK 11.50 (lowest) and NOK 28.50 (highest).

At the beginning of 2010 the share price was at about NOK 21.90. It was at its lowest on 22 March 2010 (NOK 11.50) and was at its highest on 28 December 2010 (NOK 28.50). On the last trading day of 2010 the share price was at NOK 28. The share price increase during 2010 amounted to approximately 28%.

Share ownership

Badger Explorer ASA had 861 shareholders as of 31 December 2010 (compared to 733 shareholders as of 31 December 2009). The number of shareholders increased by approximately 17% during 2010. Shareholders domiciled outside Norway held 36.4% of the total number of shares.

Largest shareholders

The three largest shareholders are Convexa Capital IV AS (Norway), State Street Bank and Trust Co. (USA/client account) and Bank of New York Mellon SA/NV (Belgium/client account) holding respectively 17.4%, 14.6 % and 5.0% of the number of outstanding shares. As of 31 December 2010 the 20 largest shareholders held 71.5% of the all outstanding shares. See also notes 12.

The table below sets out the **20 largest shareholders as of 30 March 2011**.

Name	Holding	Percentage
CONVEXA CAPITAL IV A	3 200 780	17.29
STATE STREET BANK AN A/C CLIENT OMNIBUS F	2 699 997	14.58
BANK OF NEW YORK MEL BNY GCM CLIENT ACCOU	922 204	4.98
ODIN OFFSHORE	800 000	4.32
BANK OF NEW YORK MEL S/A INVESCO PERP EUR	738 021	3.99
HOLBERG NORDEN V/HOLBERG FONDSFORVA	603 234	3.26
IRIS-FORSKNINGSINVES	527 903	2.85
SIX SIS AG 25PCT	525 837	2.84
AHLQVIST INVEST AS	465 407	2.51
BANK OF NEW YORK MEL NON-TREATY	358 787	1.94
DALVIN RÅDGIVNING AS	301 872	1.63
ANØY INVEST DA	248 800	1.34
ÅM KNUT	242 600	1.31
HOLBERG NORGE V/HOLBERG FONDSFORVA	236 866	1.28
DREVDAL KJELL ERIK	222 600	1.20
CSV II AS	214 000	1.16
MP PENSJON PK	213 200	1.15
NILSHOLMEN INVESTERI JPMBLSA RE NILSHOLME	209 222	1.13
THE NORTHERN TRUST C TREATY ACCOUNT	200 000	1.08
STOKKA SIGMUND	199 440	1.08
Total	**13 130 770**	**70.92**

Share option programme

On 15 September 2009 the Company's Board of Directors agreed to replace and expand the Company's option programme and offer all employees a total of 407 250 share options at a strike of NOK 10.00. For the Manager Quality, Risk & Supply Chain a strike price of NOK 15.00 applies.

The options can be exercised within 36 months from the time of issue and can be exercised only in tranches (respectively 29 months for the manager Quality, Risk & Supply Chain) at the earliest 12 months subsequent to the time of issue (respectively earliest on 15 September 2010) and thereafter at up to 4 occasions during each year, between 3 and 10 days after the presentation of the Company's quarterly results.
Upon exercise of the options, the option holder shall pay to the Company a price of NOK 10.00 per option share. If on the exercise day the market price of the BXPL shares is exceeding NOK 50 the exercise price shall be increased by an amount equivalent to 8% of the marked price deducting NOK 50.

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.

The following members of the Company's Management exercised share options on **4 March 2011**:

Name	Amount of exercised share options
CEO Kjell Erik Drevdal	20 000
CFO Gunnar Dolven	8 333
Mng. HR, Economy & Adm. Hege Furland	8 333
Product Manager Wolfgang Mathis	5 000
Total	**41 666**

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.

Shares and share options owned by Board members and the Company's Management

As of 30 March 2011 the following members of the Company's Board of Directors held BXPL shares:

Name	Holding	Percentage
Rolf E. Ahlqvist through Ahlqvist Invest AS	465 407	2.51
Christian Bull Eriksson through Chevni AS	6 000	0.03
Marcus Hansson through one ordinary account and two nominee accounts - SEB Private bank S.A. Luxembourg and Six SIS AG 25 PCT	616 668	3.33
Kristine Holm through Invest OK AS	15 000	0.08
Tone Kvåle	5000	0.03
Total	**1 108 075**	**5.98**

As of 30 March 2011 the following members of the Company's Management held shares and share options:

Name	Shares	Share options
CEO Kjell Erik Drevdal	222 600	55 000
CEO Kjell Erik Drevdal through 5K International	10 000	
CFO Gunnar Dolven	8 000	16 667
CFO Gunnar Dolven through Dalvin Rådgivning	301 872	
Mng. HR, Economy & Adm. Hege Furland	2 858	16 667
Mng. Quality, Risk & Supply Chain Thor Arne Håland		25 000
Sr. VP Dev. & Strategy Kjell Markmann through Nilsholmen AS)	20 200	25 000
Sr. VP Business Dev. & Strategy Kjell Markmann through Nilsholmen Investering AS	209 222	
Product Manager Wolfgang Mathis	2 100	10 000
CTO Erling Woods	1 000	25 000
Total	**777 852**	**173 334**

Financial events in 2011 and investor relations

BXPL intends to release its quarterly reports for 2011 and aims at holding its quarterly investor presentations on the following dates:

27.04.2011:	**1Q 2011 Report**
28.04.2011:	Investor presentation in Oslo
29.04.2001:	Investor presentation in Stavanger
23.08.2011:	**2Q/1H 2011 Report**
24.08.2011:	Investor presentation in Oslo
25.08.2011:	Investor presentation in Stavanger
25.10.2011:	**3Q 2011 Report**
26.10.2011:	Investor presentation in Oslo
27.10.2011:	Investor presentation in Stavanger

The **Annual General Meeting** will be held on Wednesday, 27.04.2011.

Corporate governance policy

Badger Explorer ASA's Board of Directors adopted this Corporate Governance Policy on 30 March 2011.

1 INTRODUCTION

In general Corporate Governance regulates the responsibilities between the executive personnel, the Board of Directors and the shareholders of Badger Explorer ASA.

Badger Explorer ASA ("BXPL" or "Company") is a Norwegian public limited company which shares are listed on the Oslo Børs/Oslo Stock Exchange (Oslo Axess list) and it is therefore subject to the corporate governance requirements as set out in the Norwegian Code of Practice for Corporate Governance. BXPL applies to the Norwegian Code of Practice for Corporate Governance dated 21 October 2010. If BXPL does not fully comply with the recommendations it will be explained. Furthermore Oslo Børs/Oslo Stock Exchange prescribes that companies listed on the Oslo Børs/Oslo Stock Exchange must publish a report in their annual report on the company's corporate governance.

The aim is to have systems for communication, monitoring, accountability and incentives that also enhance and thereby maximize the market value, corporate profit, long-term strength, continuity and overall success of the business of the Badger Explorer Group (Badger Explorer ASA and its subsidiaries Badger Plasma Technology AS (100%) and Calidus Engineering Ltd. (50%)) but also strengthen the confidence of shareholders in the Company.

2 REPORTING ON CORPORATE GOVERNANCE

Badger Explorer ASA's Board of Directors has approved this Corporate Governance Policy. The Company's Policy on Corporate Governance can also be found on its website (www.bxpl.com) and is included in the annual report.

Company's basic corporate values, its ethical guidelines as well as its guidelines for corporate social responsibility are incorporated in the Company's Management System Manuel.

3 BUSINESS

BXPL is developing a revolutionary drilling device for collection and analysis of data with regard to mapping and exploration of hydrocarbon deposits within the oil and gas industry, invest in and develop technology used for drilling, well service and maintenance globally within the oil and gas industry, as well as investments in securities, participation in other companies and activities related thereto.
The Company's objectives and principle strategies are described in the annual report.

4 EQUITY AND DIVIDENDS

The development of the Company's equity up to 31 December 2010 can be found in the "Statement of change in equity" in the financial statements of the annual report. Badger Explorer ASA holds a strong financial position and its development program is considered financed up to the commercial launch of Badger Explorer services.

BXPL's dividend policy aims to yield a competitive return of invested capital to the shareholders through a combination of dividends and share price development. Because of the Company's development and the fact that no profit has yet been drawn no dividend has so far been proposed.

On 21 April 2010 the Annual General Meeting ("AGM") passed two Board authorizations.

The first mandate grants the Board of Directors the possibility to increase the Company's share capital with up to NOK 116,429 through the issuance of up to 931,432 shares of nominal value NOK 0.125. It may be used to issue shares to employees, Directors and others connected with the Company as a part of the Company's share incentive scheme. The shareholder's preferential rights according to the Public Limited Liability Companies Act section 10-4 may be waived. Share issues may also be made against contributions in kind.

The second proxy authorizes the Board of Directors to increase the Company's share capital with up to NOK 225,488 through the issuance of up to 1,803,904 shares of nominal value NOK 0.125 to existing shareholders and external investors in connection with Company's expansion, development and/or strategic acquisition. The shareholder's preferential rights according to the Public Limited Liability Companies Act section 10-4 may be waived. Share issues may also be made against contributions in kind. The authorization is also valid in the event of a merger in accordance with the Public Limited Liability Companies Act Section 13-5 and may also be used when the Company has agreed payment in shares in connection with an acquisition etc.

Both Board authorizations expire at the latest by 30 June 2011.

5 EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

BXPL has one class of shares and is dedicated to apply equal treatment to all shareholders.

The decision to waiver the existing shareholders' pre-emption rights in the event of an increase in the share capital must be justified. The Board of Directors will disclose such a justification in the stock exchange notification in connection with the increase in share capital.

If a transaction between the Company and a shareholder of the Company, a shareholder's parent company, a member of the Board of Directors or a member of executive personnel (or related parties to such persons) is considered to be material in accordance with the Norwegian Code of Practice for Corporate Governance the Board will arrange for a valuation to be obtained from an independent third party. Independent valuations will also be arranged for transactions within the Group if the consideration paid by the Company exceeds 1/20th of its share capital. This will not apply if according to the Norwegian Public Limited Companies Act §3-8 the GM's approval for such transactions is required.

Board members and the executive personnel shall notify the Board if any of them have any material direct or indirect interest in any transaction entered into by BXPL.

Divergence from the Norwegian Code of Practice for Corporate Governance:
The shareholders' pre-emptive rights are exempted because the Company wishes to be able to (i) use share issues in conjunction with implementation of share incentive schemes for its employees etc and (ii) issue shares towards certain specifically chosen institutional investors or others if required or desired in conjunction with the Company's expansion, development and/or strategic acquisitions.

6 FREELY NEGOTIABLE SHARES

All shares are freely negotiable without any form of restriction on the negotiability.

7 GENERAL MEETINGS ("GM")

The shareholders exercise the highest authority in BXPL through GMs. The Annual General Meeting of BXPL will be held each year prior to the end of June. The AGM shall approve the annual accounts and annual report as well as the distribution of dividend and otherwise make such resolutions as required under the Corporate Governance Policy and the applicable law.

The Board shall publish notices of GMs and any supporting material, such as the agenda, recommendations of the Nomination Committee, the information about the shareholder's right to propose resolutions in respect of matters to be dealt with by the General Meeting and other documents as set out in the bye-laws of the Company no later than 21 days prior to the day of the GM on the Company's website(www.bxpl.com). The Board will also ensure that the distributed notice and all supporting material are sufficiently detailed and comprehensive. The Board will make reasonable endeavors to enable as many shareholders as possible to attend.

The notice shall also include information on the procedure of representation through proxy as well as a proxy that allows giving separate voting instructions for each matter to be considered by the General Meeting and for each candidate nominated for election. The Company will nominate a person who will be available to vote on the shareholder's behalf if the shareholder has not appointed a person to vote as his/her proxy. Every document will be available for downloading on the Company's website (www.bxpl.com) at least three weeks before each GM.

The Board shall make such notices of General Meetings and the relevant supporting material available through the notification system of Oslo Børs/Oslo Stock Exchange and on the Company's website no later than 21 days prior to the day of the GM. Every shareholder has the right to put matters on the agenda of a General Meeting along with a proposed resolution within the statutory timeframe.

The shareholders may be asked to notify their attendance prior to the GM. The deadline for the notification of attendance for the AGM will be as close to the meeting as possible. Shareholders who are unable to attend may vote by proxy. A proxy form shall be attached to the notice of the GM.

The GM's chairman shall be independent. The Company's Board as well as the chairman of the GM shall take all necessary steps to ensure that the shareholders vote separately for each candidate nominated for a corporate body.

BXPL will publish the minutes of GMs (alternatively only such resolutions that were not made in accordance with the proposals made in the notice to the GM) through the notification system of Oslo Børs/Oslo Stock Exchange and on its website no later than 15 days after a GM has been held as well as keeping them available for inspection in the Company's offices.

The Board may convene an extraordinary GM whenever it deems necessary or when otherwise legally required. BXPL's auditor and any shareholder or group of shareholders representing no less than 5% of the issued and outstanding share capital of BXPL may require that the Board convenes an extraordinary GM.

The Annual General Meeting for the fiscal year 2009 was held in Stavanger on 21 April 2010 where 66.64% of all shares were represented. An Extraordinary General Meeting was held in Stavanger on 1 December 2010 where 45.07% of all shares were represented.

Divergence from the Norwegian Code of Practice for Corporate Governance:
The Norwegian Code of Practice for Corporate Governance demands that the Board of Directors as a whole, the members of the Nomination Committee and the Auditor are present at the General Meetings. BXPL considers it to be sufficient that only the chairman of the Board and the Auditor attend the GMs.

8 NOMINATION COMMITTEE

BXPL's Nomination Committee consists of two to three members to be elected by the Company's General Meeting. The majority of the members shall be independent of the Board of Directors and the Company's executive personnel. No more than one member of the Board of Directors shall be member of the Nomination Committee, and should not offer himself for re-election to the Board. The members of the Nomination Committee are elected by the shareholders in a GM for a period of no longer than two years.

The Nomination Committee makes recommendations to the GM on the appointment and termination of Directors. The composition of the Board of Directors should reflect considerations regarding the provisions of the Company's Corporate Governance Policy, commitment to shareholder return, independence and experience in the relevant sectors (technology and business development, financing and accounting, disclosure and regulatory, etc). It is also the Nomination Committee's duty to propose the fees to be paid to the members of the Board of Directors.

The Nomination Committee's recommendations shall include information on the proposed Directors, in particular each person's age, education, business experience, term of appointment to the Board (if applicable), any assignments (other than the proposed Directorship) for the Company and material appointments with other companies and organizations. In the event of recommendation to re-elect current Directors, the recommendation may refer to information included in the annual report of the Company.

The Nomination Committee shall elect its own chairman according to the Company's Articles of Association. Meetings of the Nomination Committee shall be convened when deemed necessary by any of its members in order for it to adequately fulfill its assigned duties. Notice of a meeting shall be sent out by the chairman of the Nomination Committee not later than one week prior to the meeting unless all members approve a shorter notice period.

The Company will on its website provide information on the membership of the Committee and any deadlines for submitting proposals to the Nomination Committee.

<u>The Nomination Committee consists of:</u>

Rolf E. Ahlqvist – re-elected until AGM 2012
Bjørge Gretland – elected until AGM 2011
Knut Åm – re-elected until AGM 2012

Bjørge Gretland and Knut Åm are considered independent of the Board of Directors.

<u>Divergence from the Norwegian Code of Practice for Corporate Governance:</u>
The Company's Articles of Association regulate the election of the chairman of the Nomination Committee. According to § 6 of the Articles of Association of Badger Explorer ASA the Nomination Committee elects its own chairman.

The chairman of the Board of Directors, Mr. Rolf E. Ahlqvist, was re-elected as a member of the Nomination Committee by the Annual General Meeting for 2009 on 21 April 2010.

The Norwegian Code of Practice for Corporate Governance requires guidelines regarding the Nomination Committee's duties to be set out by the General Meeting. In BXPL it is the Committee itself that sets out its duties in accordance with the duties presented in chapter 7 of the Company's Corporate Governance Policy.

9 BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

BXPL shall be headed by a Board with collective responsibility for the success of the Company and the Badger Group.

The Board of Directors shall have between four and eight Directors according to § 5 of BXPL's Article of Association. Currently the Board consists of five Directors who have all been elected by the shareholders and are not representatives of BXPL's executive personnel. The members of the Board of Directors are elected for a period of two years.

The members of the Board of Directors are:

Rolf E. Ahlqvist (chairman) – elected until AGM 2011
Christian Bull Eriksson – re-elected until AGM 2012
Marcus Hansson – elected until AGM 2012
Kristine Holm – re-elected until AGM 2012
Tone Kvåle – elected until AGM 2011

Mr. Ahlqvist was elected as chairman of the Board of Directors by the AGM held on 24 April 2009. All members of the Company's Board of Directors are considered independent according to the Norwegian Code of Practice for Corporate Governance.

Rolf E. Ahlqvist owns through Ahlqvist Invest AS 465,407 shares which represents a total of 2.51% as of 24 March 2011.

Christian Bull Eriksson owns through Chevni AS 6,000 shares which represent a total of 0.03% as of 24 March 2011.

Marcus Hansson owns a total of 576,668 shares (through one ordinary account 11,668 shares and through two nominee accounts - SEB Private bank S.A. Luxembourg 65,000 shares and Six SIS AG 25 PCT 500,000 shares) which represents a total of 3.12% as of 24 March 2011.

Kristine Holm owns through Invest OK AS 15,000 shares which represents a total of 0.08% as of 24 March 2011.

Tone Kvåle owns 5000 shares which represents a total of 0.03% as of 24 March 2011.

10 THE WORK OF THE BOARD OF DIRECTORS

The Board shall ensure that the Company is well organized and that operations are carried out in accordance with applicable laws and regulations, in accordance with the objects of BXPL as specified its Articles of Association and guidelines given by the shareholders through resolutions in GMs.

BXPL's Board of Directors has the ultimately responsibility for inter alia the Company's executive personnel and the supervision of its activities but also for the Company's budgets and strategic planning. The Board of Directors produces an annual plan of its work.

To fulfill its duties and responsibilities it is ensured that the Board has full access to the Company's relevant information. The Board shall also investigate such matters as for example obtaining advice, opinions and reports from third party advisors as it deems necessary in order to carry out its responsibilities. The "Rules of Procedure for the Board of Directors of Badger Explorer ASA and the Relation to CEO" were approved by the Board on 9 June 2010 and were implemented.

The Board's work is organized through three different committees:

Compensation Committee
Strategy Committee
Audit Committee

Rolf E. Ahlqvist and Tone Kvåle are members of the Company's Compensation Committee.

Rolf E. Ahlqvist, Christian Bull Eriksson and Kristine Holm are members of the Strategy Committee.

Rolf E. Ahlqvist and Tone Kvåle are members of the Company's Audit Committee.

The Board of Directors evaluates its own performance and expertise once a year. The Board of Directors held 7 ordinary Board meetings and 5 extraordinary Board meetings during the fiscal year 2010.

11 RISK MANAGEMENT AND INTERNAL CONTROL

BXPL has implemented internal control and risk management systems which include the Company's core values, ethical guidelines and guidelines for corporate social responsibility to strengthen the organization.The Board of Directors carries out an annual review of the control and risk management systems and the Company's most important areas of exposure to risk.

12 REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of the members of the Board of Directors reflects the Board's responsibilities, expertise, the committed time and the complexity of the Company's activities. The remuneration of the Board of Directors is not linked to the Company's performance. The Board Members' remuneration (form and amount) will be reviewed annually by the Nomination Committee and it is not linked to the Company's performance. It is the Nomination Committee's responsibility to prepare a proposal for the Annual General Meeting regarding the above mentioned remuneration

At the Extraordinary General Meeting on 1 December 2010 the GM has given the Company's Board the proxy to enter into agreements with close associates for the time period 1 December 2010 until 31 December 2011. The chosen close associates have networks and expertise available that can be of interest to be used for assignments that exceed the scope of work for ordinary tasks of Board members. The remuneration shall be limited to NOK 1,500 per hour and the total remuneration shall not exceed NOK 200,000 for the time period stated above. Time schedule and detailed specifications of duties shall be approved by the Board.

13 REMUNERATION OF THE EXECUTIVE PERSONNEL

The Board of Director establishes as required by law guidelines for the remuneration of the members of the executive personnel. The AGM will vote on these guidelines which help ensure convergence of the financial interest of the executive personnel and the shareholders. The guidelines for remuneration of the executive personnel are published in the Annual Report 2010 in notes 6.

Performance related remuneration of the Company's executive personnel shall aim for value creation for BXPL's shareholders or the Company's earnings performance. Such arrangements shall encourage performance and be based on quantifiable factors which can be influenced by the employee. Performance related remuneration shall be subject to an absolute limit.

The executive personnel's holdings of shares and share options are the following as of 24 March 2011:

Kjell Erik Drevdal (CEO) holds 232,600 shares, 10,000 of these through 5K International AS. The shares owned by the Company's CEO represent a total of 1.26% of the Company. Mr. Drevdal has been granted 75,000 share options which may be exercised within 36 months from the time of issue in September 2009 and can be exercised only in tranches, at the earliest 12 months subsequent to the time of issue and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results. On 4 March 2011 Mr. Drevdal exercised 20,000 share options at a strike price of NOK 10.00. After exercising options Kjell Erik Drevdal holds 55,000 unexercised share options in the Company at the strike price of NOK 10.00

Gunnar Dolven (CFO) holds 315,205 shares, 301,872 of these through Dalvin Rådgivning AS, equalling 1.70% of the Company. Mr. Dolven has been granted 25,000 share options which may be exercised within 36 months from the time of issue in September 2009 and can be exercised only in tranches, at the earliest 12 months subsequent to the time of issue and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results. On 4 March 2011 Mr. Dolven exercised 8,333 share options in the Company at the strike price of NOK 10.00. After exercising options Gunnar Dolven holds 16,667 unexercised share options in the Company at the strike price of NOK 10.00.

Hege Furland (Manager HR, Economy & Administration) holds 2,858 shares which represent a total of 0.02% of the Company. Mrs. Furland has been granted 25,000 share options which may be exercised within 36 months from the time of issue in September 2009 and can be exercised only in tranches, at the earliest 12 months subsequent to the time of issue and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results. On 4 March 2011 Mrs. Furland exercised 8,333 options in the Company shares at the strike price of NOK 10.00. After exercising options Hege Furland holds 16,667 unexercised share options in the Company at the strike price of NOK 10.00.

Dave Gardner Øxnevad (Chief Project Manager) has been granted 60,000 share options which may be exercised within 36 months from the time of issue in September 2009 and can be exercised only in tranches, at the earliest 12 months subsequent to the time of issue and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results. Mr. Gardner is on temporary leave of absent and has accepted not to exercise his share options during his leave.

Thor Arne Håland (Manager Quality, Risk and Supply Chain) has been granted 25,000 share options which may be exercised within 29 months from the time of issue in June 2010 and can be exercised only in tranches, at the earliest on 15 September 2010 and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results.

Kjell Markman (Sr. VP Business Dev. & Strategy) holds 1.24% of the Company (equals 229,422 shares) through Nilsholmen AS and Nilsholmen Investering AS. Mr. Markman has been granted 25,000 share options which may be exercised within 36 months from the time of issue in September 2009 and can be exercised only in tranches, at the earliest 12 months subsequent to the time of issue and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results.

Wolfgang Mathis (Product Manager) holds 2,100 shares which represents 0.0114% of the Company. Mr. Mathis has been granted 15,000 share options which may be exercised within 36 months from the time of issue in September 2009 and can be exercised only in tranches, at the earliest 12 months subsequent to the time of issue and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results. On 4 March 2011 Mr. Mathis exercised 5,000 options in the Company at the strike price of NOK 10.00. After exercising options Wolfgang Mathis holds 10,000 unexercised share options in the Company at the strike price of NOK 10.00

Erling A. Woods (CTO) holds 1,000 shares which represents 0.005% of the Company. Mr. Woods has been granted 25,000 share options which may be exercised within 36 months from the time of issue in September 2009 and can be exercised only in

tranches, at the earliest 12 months subsequent to the time of issue and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results.

14 INFORMATION AND COMMUNICATIONS

BXPL provides its shareholders, Oslo Børs/Oslo Stock Exchange and the financial markets generally (through Oslo Børs'/Oslo Stock Exchange's Distribution Network) with timely and accurate information. Such information takes the form of annual reports, quarterly interim reports, press releases, stock exchange notifications and investor presentations as applicable. It seeks to clarify its long-term potential, including its strategy, value drivers and risk factors. The Company maintains an open and proactive investor relations policy, a best-practice website and gives presentations regularly in connection with annual and interim results in Oslo and Stavanger/Norway and London/UK.

The Company's current financial calendar with dates of important events like the Annual General Meeting, publishing of quarterly reports and its presentations etc are accessible for all shareholders on www.osloaxess.no and on the Company's website www.bxpl.com.

Generally, BXPL, as a company listed on Oslo Børs/Oslo Stock Exchange, discloses all required information as defined by law. Certain resolutions and circumstances will in any event be disclosed, including but not limited to Board and GM resolutions regarding dividends, mergers/de-mergers or changes in share capital, issue of warrants, issue of convertible or other loans, any changes in the rights vested in the shares of the Company (or other financial instruments issued by BXPL) and all agreements of material importance that are entered into between the Company and a shareholder, member of the executive personnel, or related parties thereof, or any other company in the Badger Group.

An announcement informing on BXPL's share capital and number of votes related thereto shall be made by the end of each month during which changes to any of these have occurred.

It is important to BXPL to disclose all material information to all recipients equally in terms of timing and content.

15 TAKEOVERS

The Company has not implemented any specific guidelines for how to act in the event of a takeover bid.

Divergence from the Norwegian Code of Practice for Corporate Governance:
The Company has not yet attached importance to guidelines in case of a takeover. A bid will be dealt with by the Board of Directors and based on their recommendation the shareholders' approval will be requested.

16 AUDITOR

Under Norwegian law the auditor of the Company (the "Auditor") is elected by the shareholders in a GM. The current Auditor serves until a new auditor has been elected. The Auditor participates in meeting(s) of the Board that deal with the annual accounts as well as the General Meetings. At these meetings the Auditor reviews any variations in the accounting principals applied, comments on material accounting estimates and issues of special interest to the Auditor, including possible disagreements between the Auditor and the management.

At least once a year the Auditor and the Board of Directors meet without any members of the Company's executive personnel present. The Auditor presents annually to the Audit Committee/Board of Directors the main features of its plan for the audit of the Company, as well as a review of the Company's internal control procedures.

The remuneration of the Auditor and all details regarding the fees of the audit work and other specific assignments are presented at the AGM.

The Company's auditor has to annually submit a written confirmation that the Auditor still continues to satisfy with the requirements for independence and a summary of all services in addition to audit work that has been undertaken for the Company.

BXPL Management

Kjell Erik Drevdal President & CEO

Mr. Drevdal holds a B.Sc. degree in petroleum engineering from the University of Stavanger, Norway. Mr. Drevdal has 30 years experience from the international oil & gas industry, the last 15 years in different managerial positions including positions as VP Business Development (Prosafe Drilling Services), Manager Sales and Marketing (National Oilwell Hitec products), Engineering Manager – Drilling, Completion and Well Intervention Technology (Statoil ASA), Drilling Operations Supervisor and Drilling Advisor (Statoil ASA – Gullfaks operations). He has also been a board member of Hitec Products Drilling Services (2004 – 2006).

Gunnar Dolven CFO

Mr. Dolven holds a MBA in Corporate Finance from the Norwegian School of Economics & Business Administration (NHH), Bergen, Norway, and a M.Sc. in applied mathematics from the same institution. He has more than 20 years managerial experience from the financial sector and the oil & gas industry including positions as COO and CEO of SpareBank1 and Sr. Vice President/Director of group planning in Statoil ASA. He has extensive board experience including positions as chairman from several companies.

Hege Furland Manager HR, Economy & Administration

Ms. Furland has more than 20 years of experience from working in the fields of finance, personnel and administration as well as broad experience from developing, establishing and managing companies' functions and systems within these fields. Her former experience includes positions as Accounting and Administration Manager for Norferm AS, Contract and Market Coordinator for Smedvig Offshore and Administration Manager for Fosså A/S.

Thor Arne Håland Manager Quality, Risk & Supply Chain

Thor Arne Håland has more than 30 years experience from the aviation industry having mainly worked in the fields of maintenance and production as well as quality and safety. Mr. Håland obtained his mechanical engineering degree at Stavanger Tekniske Fagskole, Stavanger, Norway in 1988. Thor Arne Håland held various Vice President Positions in Braathens and SAS Scandinavian Airlines Norge AS.

Kjell Markman Sr. VP Business Dev. & Strategy

Mr. Markman holds a M.Sc. in Mechanical Engineering from the Norwegian University of Science and Technology (NTNU), Trondheim, Norway. With 30 years in the oil business he has extensive experience from various positions within several major oil companies as well as large suppliers and service companies delivering goods and services to the oil & gas industry. Mr. Markman has held senior management positions in companies like Baker Hughes Inteq, National Oilwell, Hitec and Statoil.

Wolfgang Mathis Product Manager

Mr. Mathis holds a M.Sc. and a PhD in Petroleum Engineering from the University of Leoben, Austria. During his university education Mr. Mathis studied one year at the Norwegian University of Science and Technology (NTNU), Trondheim, Norway specializing in Drilling Engineering before finalizing his studies with his master project at Shell in Rijswijk, The Netherlands. In 2003 he joined the oil industry with TDE Thonhauser Data Engineering publishing several publications on drilling process optimization and obtaining his PhD in Drilling Engineering in 2007 whilst working full time. Dr. Mathis joined Badger Explorer ASA in October 2007 after having worked on several projects around the world since 2003.

Erling Woods CTO

Mr. Woods holds a M.Sc. and a PhD in Engineering Cybernetics from the Norwegian University of Science and Technology (NTNU), Trondheim, Norway. He has more than 20 years of experience in the fields of research and management of advanced industrial innovation activities. His former experience includes SINTEF as Research Scientist and Research Manager, Kongsberg Defense and Aerospace as Techn. Director and VP for Simulation and Training. Most recently Dr. Woods held the position as VP of global R&D for Laerdal Medical AS.

The Board of Directors

L - r: Marcus Hansson, Kristine Holm, Rolf E. Ahlqvist, Tone Kvåle and Christian Bull Eriksson

Rolf E. Ahlqvist Chairman of the Board

Mr. Ahlqvist is a Business and Economics graduate from the University of Göteborg, Sweden and has more than 30 years of experience from the oil & gas industry through marine, offshore and steel companies. Mr. Ahlqvist held amongst others positions as CEO of Scana Industries ASA, Sales & marketing Director at Rosenberg Verft and Business Manager at Aker Offshore and Aker Stord. Mr. Ahlqvist became partner and chairman of Procom Venture AS in 2002. He serves also as Board member of GS-Hydro Norge AS as well as a number of other Nordic companies. He has in depth experience in establishing companies, creating growth, implementing strategy plans and re-structuring and evaluating companies.

Christian Bull Eriksson Board member

Mr. Bull Eriksson holds a M.Sc. from the Norwegian University of Science and Technology (NTNU). Mr. Bull Eriksson is currently the chairman of the Board and Managing Director of IK Group AS. He has extensive experience from the oil & gas industry and has held a number of executive positions including Managing Director of PSI (2002-2006) and CEO of Smedvig ASA (1999-2002). Other Board positions include Director in Multi Phase Meters (MPM), Can AS and Optipumup AS.

Marcus Hansson Board member

Mr. Hansson has extensive experience from the financial services sector as a Portfolio Manager and Stockbroker within Hedge Fund Sales. Currently Mr. Hansson works as a business developer and London based investor. Previously Mr. Hansson held a position as Director within the Proprietary Trading Department at Credit Suisse Europe LTD in London working as a portfolio manager investing money for the Arbitrage Strategies group. For more than 10 years Mr. Hansson has also worked as a Stockbroker and Hedge Fund Sales for Carnegie Investment Bank, SEB Enskilda and Ohman Securities focusing on Long/Short strategies, Special Situations and Risk Arbitrage. Mr. Hansson holds a M.Sc. in Business Administration and Economics from the University of Stockholm.

Kristine Holm Board member

Ms. Holm is a graduate geologist from the University of Bergen and currently holds the position as Asset Manager & Assisting Business Unit Manager in Total E&P Norge and also serves as a Board member for Total E&P Norge. Ms. Holm previously worked as Geoscience Department Manager and Exploration area manager in Total E&P Norge. She has more than 25 years of extensive experience from the oil & gas industry including various positions within the field of geology in Elf Petroleum Norge and the Elf Group's Technical and Research Centre in France.

Tone Kvåle Board member

Ms. Kvåle holds a B.Sc. degree in business administration from The College of Harstad, Norway. Ms. Kvåle is currently the CFO of NorDiag ASA, Oslo, Norway. She has 14 years of experience from the biotechnology industry (Dynal Biotech 1995 – 2005 and Invitrogen Corporation 2005 – 2006). Ms. Kvåle has also extensive experience from accounting, finance and the IR field within listed companies and in particular from companies being in the product development and growth phase. arine, offshore and steel companies, including as CEO at Scana Industries ASA, Sales & marketing Director at Rosenberg Verft and Business Manager at Aker Offshore and Aker Stord. Mr. Ahlqvist became partner and chairman of Procom Venture AS in 2002. He is also board member of GS-Hydro Norge AS and a number of other Nordic companies. He has in debth experience in establishing companies, creating growth, implementing strategy plans and re-structuring and evaluating companies.

The Board of Directors' report

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 31.12.2009.

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.

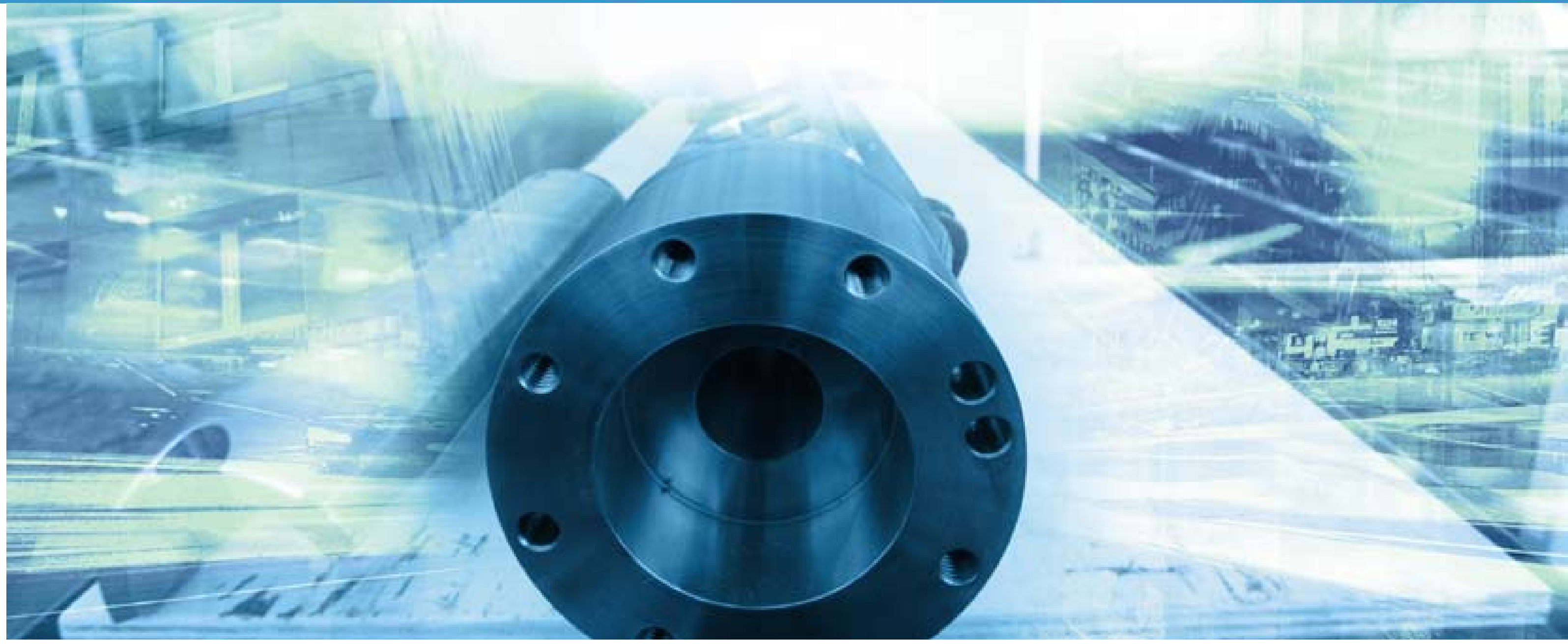
As of 31.12.2010 Badger Explorer ASA had 16 permanent employees, 4 of whom are female. In Badger Explorer ASA 12.5% of all employees were foreign employees as of 31.12.2010 and 26.3% of all employees were foreign employees as of 31.12.2009. The Management group in Badger Explorer ASA consisted of 14.3% 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.

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.

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

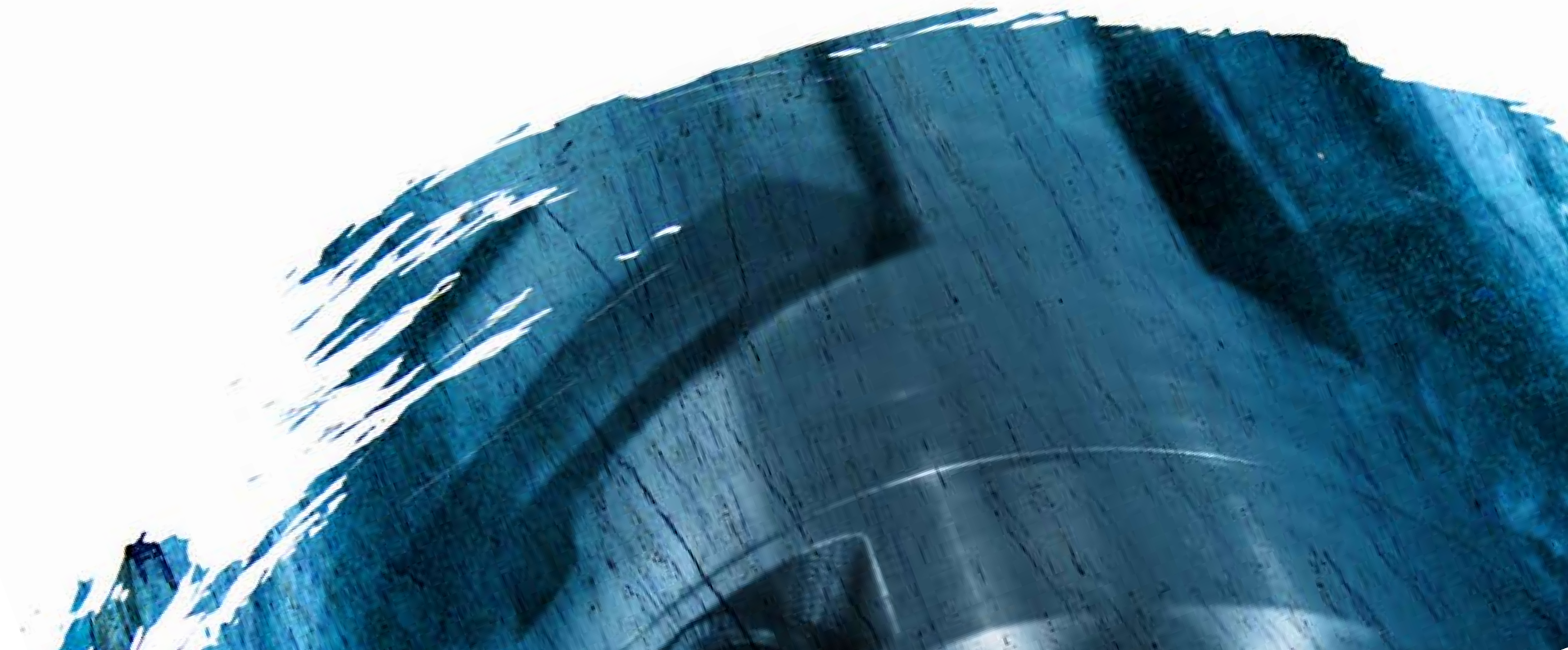
Responsibility statement

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 Group

Income statement - Badger Explorer Group

All figures in NOK

	Note	2010	2009
REVENUES			
Other Income		12 056 296	8 977 649
Public grants	2	1 805 110	1 977 003
Capitalised public grants	9	-1 805 110	-1 977 003
Total revenues		**12 056 296**	**8 977 649**
OPERATING EXPENSES			
Cost of goods sold		3 166 091	2 639 408
External services for dev. project		16 888 875	20 766 818
Payroll and related costs	6	26 582 838	19 915 191
Depreciation	7	988 748	1 147 596
Other operating expenses		10 946 717	11 902 275
Capitalised development cost	9	-26 950 197	-30 561 242
Total operating expenses		**31 623 072**	**25 810 046**
Operating profit (loss)		**-19 566 776**	**-16 832 397**
Financial income	3	1 504 740	6 186 850
Financial expenses	3	1 017 650	277 886
Net financial items		**487 090**	**5 908 964**
Profit (loss) before taxes		**-19 079 686**	**-10 923 433**
Tax on ordinary result	4	-417 669	-235 007
Net profit (loss)		**-19 497 354**	**-11 158 439**
Profit (loss) attributable to non-controlling interest		1 407 660	1 572 054
Profit (loss) attributable to equity holders of the parent	**5**	**-20 905 015**	**-12 730 493**
Earnings per share	5	-1,13	-0,69
Earnings per share diluted	5	-1,13	-0,69

Statement of financial position - Badger Explorer Group

All figures in NOK

ASSETS	Note	2010	2009
NON-CURRENT ASSETS			
Capitalised development costs	9	89 155 567	64 010 480
Patent rights	9	386 668	386 668
Goodwill	9	5 640 192	5 709 840
Total intangible assets		**95 182 428**	**70 106 987**
Property, plant & equipment	7	3 641 798	3 333 191
Total tangible assets		**3 641 798**	**3 333 191**
Investment in shares in liquidity fund	15	52 615 534	0
Total financial assets		**52 615 534**	**0**
TOTAL NON-CURRENT ASSETS		151 439 759	73 440 178
CURRENT ASSETS			
Inventories	8	**4 213 277**	**854 407**
Accounts receivables	10,15	3 958 992	1 520 288
Other receivables	10,15	2 904 671	3 114 620
Total receivables		**6 863 663**	**4 634 908**
Bank bonds	15	0	33 781 615
Total current financial assets		**0**	**33 781 615**
Cash and cash equivalents	11	**45 887 783**	**107 315 911**
TOTAL CURRENT ASSETS		56 964 722	146 586 841
TOTAL ASSETS		208 404 482	220 027 019

EQUITY AND LIABILITIES	Note	2010	2009
EQUITY			
Share capital	12	2 304 880	2 304 880
Share premium fund		217 099 786	217 099 786
Other paid in capital		2 285 528	945 870
Total paid in equity		**221 690 194**	**220 350 536**
Foreign currency translation reserve		-2 598 005	-2 306 218
Retained earnings		-43 097 875	-22 192 860
Total equity attributable to equity holders of parent		**-45 695 880**	**-24 499 078**
Non-controlling interests	17	**6 092 609**	**4 684 949**
TOTAL EQUITY		182 086 924	200 536 407
LIABILITIES			
Capitalised grants	14	17 935 200	13 855 200
Other long term liabilities		79 832	0
Total long term liabilities		**18 015 032**	**13 855 200**
Accounts payable	13	3 392 785	3 375 906
Public duties payables		2 603 939	222 432
Taxes payable	4	412 594	202 181
Other short term liabilities		1 893 208	1 834 893
Total short term liabilities		**8 302 526**	**5 635 412**
TOTAL LIABILITIES		26 317 558	19 490 612
TOTAL EQUITY AND LIABILITIES		208 404 482	220 027 019

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

Statement of comprehensive income - Badger Explorer Group

All figures in NOK

Total comprehensive income	2010	2009
Profit (loss) for the year	-19 497 354	-11 158 439
Other comprehensive income		
Translation differences	-291 787	-1 148 649
Total comprehensive income for the year, net of tax	**-19 789 141**	**-12 307 088**

Total comprehensive income attributable to:	2010	2009
Equity holders of the parent	-21 196 802	-13 879 142
Non-controlling interest	1 407 660	1 572 054
	-19 789 141	**-12 307 088**

Statement of change in equity - Badger Explorer Group

All figures in NOK

	Note	Share capital	Share premium fund	Other paid in capital	Foreign currency translation	Retained earnings	Non-controlling interest	Total equity
Equity per 01.01.2009		2 304 880	217 099 786	262 112	-1 157 569	-9 462 367	3 112 897	212 159 739
Profit (loss) for the year						-12 730 493	1 572 054	-11 158 439
Foreign currency translation					-1 148 649			-1 148 649
Total comprehensive income					-1 148 649	-12 730 493	1 572 054	-12 307 088
Option plan payment	6			683 758				683 758
Equity per 31.12.2009		2 304 880	217 099 786	945 870	-2 306 218	-22 192 860	4 684 950	200 536 408
Profit (loss) for the year						-20 905 015	1 407 660	-19 497 355
Foreign currency translation					-291 787			-291 787
Total comprehensive income					-291 787	-20 905 015	1 407 660	-19 789 142
Option plan payment	6			1 339 658				1 339 658
Equity per 31.12.2010		**2 304 880**	**217 099 786**	**2 285 528**	**-2 598 005**	**-43 097 875**	**6 092 609**	**182 086 924**

Statement of cash flow - Badger Explorer Group

All figures in NOK

	Note	2010	2009
Cash flow from operational activities			
Contributions from operations*		-17 656 038	-15 236 050
Change in accounts receivable and accounts payables		-2 421 826	1 157 741
Change in other receivables and payables		-498 685	2 616 548
Net cash flow from operating activities	**A**	**-20 576 549**	**-11 461 762**
Cash flow from investment activities			
Investment in fixed asset	7	-1 297 356	-1 055 232
Investment/sales bank bonds	15	33 781 615	5 591 280
Investment in shares in liquidity fund	15	-52 615 534	0
Capitalisation of development cost	9	-26 950 197	-30 561 242
Net cash flow from investment activities	**B**	**-47 081 472**	**-26 025 195**
Cash flow from financing activities			
Public grants		1 805 110	1 977 003
Contribution from industry partners	14	4 080 000	0
Other changes in long term receivables and payables		79 832	0
Interest paid		-1 017 650	-277 886
Interest received		1 504 740	6 186 850
Net cash flow from financing activities	**C**	**6 452 033**	**7 885 967**
Total net changes in cash flow	A+B+C	-61 205 990	-29 600 990
Net foreign translation differences		-222 140	-655 925
Cash and cash equivalents 1.1		107 315 912	137 572 827
Cash and cash equivalents 31.12**		**45 887 783**	**107 315 912**
Net result		-20 905 015	-12 730 493
Profit (loss) attributable to non-controlling interest		1 407 660	1 572 054
Employee options	6	1 339 658	683 758
Depreciation	7	988 748	1 147 596
Financial income		-1 504 740	-6 186 850
Financial expenses		1 017 650	277 886
***Total contributions from operations**		**-17 656 038**	**-15 236 050**

** Bank bonds of MNOK 33.8 have been sold and investment of MNOK 52.7 have been made in liquidity fund during 2010.

Note 1 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 Jåttåvågveien 7 - Building C, 4020 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 as of 31.12.2010.

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.

1.1 Consolidation

The consolidated financial statement comprises the financial statement of Badger Explorer ASA and its subsidiaries as at 31.12 each year.

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, see note 17.

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, transactions, unrealised gains and losses resulting from intra-group transaction and dividend 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 looses 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 interests represent the portion 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.

<u>Basis of consolidation prior to January 2010</u>

Certain of the above mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired where recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholder.

Note 1 Accounting policies (continues)

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportional share of the acquirer's identifiable net assets.

1.2 Currency

Translation differences are taken to profit or loss. Transaction in foreign currencies are initially recorded in the functional currency rate quoted at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate at the balance sheet date. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the balance sheet

The Group's consolidated financial statements are presented in NOK. Income statement 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.

1.3 Comparatives

Where necessary comparative figures have been adjusted to conform to changes in presentation in the current year. No such adjustment has been made in 2009 and 2010.

1.4 Financial assets

<u>Initial recognition</u>

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. The Group determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group's financial assets include, in addition to cash and cash equivalents, trade and other receivables and other liabilities, bank bonds classified as loans and receivables and investment in shares in liquidity fund classified at fair value through profit and loss.

<u>Subsequent measurement</u>

The subsequent measurement of financial assets depends on their classification:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the income statement.

Group's share in marked based liquidity fund are classified as "financial assets at fair value through profit and loss" under IAS 39.9 b), as the fund is managed and its performance is evaluated on a fair value basis.

Note 1 Accounting policies (continues)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

The Group's bank bonds are classified as "loans and receivables" under IAS 39.

1.5 Inventory

Inventory is valued at the lower of cost and net realisable value.

Cost incurred in bringing raw materials to its present location and condition are accounted for by purchase cost on a first in, first out basis.

Cost incurred in bringing finished goods and work in progress to its present location and condition are accounted for by cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated cost necessary to make the sale.

1.6 Cash and cash equivalents

Cash includes cash in hand and at bank. Cash equivalents are short-term liquid investments that can be converted into cash within three months and to a known amount, and subject to an insignificant risk of change in value.

1.7 Accounts receivable

Accounts receivable are recognised in the balance sheet at nominal value less provisions for doubtful debts.

1.8 Fixed assets

Fixed assets are carried at cost less accumulated depreciations and impairment losses. When fixed assets are sold or disposed of, the gross carrying amount and accumulated depreciation are derecognised, and any gain or loss on the sale or disposal is recognised in the income statement.

The gross carrying amount of fixed assets is the purchased price, including duties/taxes and direct acquisition costs relating to making the asset ready for use. Subsequent costs, such as repair and maintenance costs, are recognised in profit or loss as incurred. When increased future economic benefits as a result of repair/maintenance work can be proven, such costs will be recognised in the balance sheet as additional to fixed assets.

Depreciation is calculated using the straight-line method over the following periods:

Plant and machinery: 6 - 10 years

Fixtures, fittings and vehicles: 3 - 5 years

Both the depreciation period and depreciation method and the residual value of fixed assets are evaluated annually.

Note 1 Accounting policies (continues)

1.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is expensed as incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as change in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets are capitalised if it is probable that the expected future financial benefits referred to the asset will accrue to the Group, and that the cost can be calculated in a reliable matter.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Patents and licenses

Cost relating to patents and licenses are capitalised as incurred. Depreciation is recognised in the balance sheet and depreciated using the straight-line method over the expected useful life, commencing when the technology is ready for its intended use. The expected useful life of patents and licenses varies from 5 to 20 years.

Research and development

Costs relating to research are expensed as incurred. 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 Groups intention to complete and the Groups 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 asset.

When all the above criteria are met, the costs relating to development start to be recognized in the balance sheet. All costs related to the Badger Explorer development project is capitalised continuously every month. Project manager performs an continues assessment whether the cost relates to the development project or to normal operations. Internal hours used in the development project are capitalized at cost (no mark-up). Capitalised carrying amount for the development project amounts to MNOK 89 per 31.12.2010, see note 9.

Note 1 Accounting policies (continues)

Costs that have been expensed in previous accounting periods are not recognized in the balance sheet.

Recognized development costs are depreciated on a straight-line basis over the estimated useful life for the asset, usually not exceeding 10 years. Depreciation starts when the asset is ready for use. No depreciation has yet been performed for the development projects. The fair value of the development costs will be calculated when there is an indicator of change in value.

Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

1.10 Provisions

An provision is recognised in the balance sheet when the Group has a liability (legal or constructive) as a consequence of a past event, it is likely (more likely than not) that a financial settlement will follow this liability and the amount can be calculated reliable. If the effect is substantial, the provision is calculated by discounting expected future cash flow at a discount rate before tax which reflects the markets pricing of time value of money and, if relevant, risks specifically related to the liability. Provisions are reviewed at each balance sheet date and their level reflects the Managements best estimate of liability. Any increase in the provision due to time is presented as interest costs.

1.11 Principles for revenue recognition

Revenue is recognised to the extent when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable net of value added tax and discounts. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from the sale of goods is recognised when the significant risk and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Revenue from sale of engineering services is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Revenue from dividends is recognized when the Group's right to receive the payment is established.

Note 1 Accounting policies (continues)

Revenue from rental income arising from operational leases on instruments is accounted for on a straight line basis over the lease terms.

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

1.12 Public grants and contribution from partners

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.

All public grants received to date are related to development projects and deducted in the carrying amount of the related asset. Ref. note 9.

Where the grants relate to an asset, it is recognised as deferred income and released to income in equal annual amounts over the expected useful life of the related assets.

Contribution from partners are recognised in the balance sheet as long term liabilities as the contributions are subject to specific requirements. Ref. note 14.

Where the Group receives non-monetary grants, the assets and the grants are recorded at nominal amounts and released to profit and loss over the expected useful life of the relevant assets by equal annual instalments.

1.13 Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all taxable temporary differences on assets and liabilities.

Deferred income tax liabilities are recognised for all taxable temporary differences except

(i) where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

(ii) in respect of taxable temporary differences are associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax and deferred tax assets are recognised at their nominal value and classified as non-current asset (long term liabilities) in the balance sheet.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The tax payable and deferred tax are recognised directly as other comprehensive income in equity to the extent that they relate to factors that are recognised directly as other comprehensive income in equity.

Note 1 Accounting policies (continues)

1.14 Contingent liabilities and assets

Contingent liabilities are defined as

(i) possible obligations resulting from past events whose existence depends on future events.

(ii) obligations that are not recognised because it is not probable that they will lead to an outflow of resources.

(iii) obligations that cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the annual financial statements. Significant contingent liabilities are stated, with the exception of contingent liabilities where the probability of the liability occurring is remote.

A contingent asset is not recognised in the annual financial statements, but is disclosed if there is a certain level of probability that a benefit will accrue to the Group.

1.15 Events after the balance sheet date

New information on the Group's positions at the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that do not affect the Group's position at the balance sheet date but affect the Group's position in the future are stated if significant.

1.16 Use of estimates when preparing the annual financial statements.

Estimates and their underlying assumptions that affect the application of accounting principles and reported amounts of assets and liabilities, income and expenses are based on historic experience and other factors considered reasonable under the circumstances. The estimates constitute the basis for the assessment of the net book value of assets and liabilities when these values cannot be derived from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements, is given in the following notes:

- Impairment test for intangible assets (note 18)
- Depreciation periods for fixed assets and intangible assets (notes 7,9)
- Capitalized development cost/R&D cost (note 9)
- Taxes (note 4)

The preparation of the Group's consolidated financial statements requires the management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment of the carrying amount of the asset or liability affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment of the carrying amounts of assets and liabilities within the next financial year are discussed below.

Note 1 Accounting policies (continues)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and capitalised development cost are tested for impairment annually and at other times when such indicators exist. The Group's impairment test for goodwill and capitalised development cost is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the cash generating unit, including a sensitivity analysis, are further explained in note 18. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. This is especially relevant to capitalised development costs.

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 Groups intention to complete and the Groups 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 asset.

When all the above criteria are met, the costs relating to development start to be recognized in the balance sheet. All costs related to the Badger Explorer development project is capitalised continuously every month. Project manager performs an continues assessment whether the cost relates to the development project or to normal operations. Internal hours used in the development project are capitalized at cost (no mark-up). Capitalised carrying amount for the development project amounts to MNOK 89 per 31.12.2010, see note 9

Costs that have been expensed in previous accounting periods are not recognized in the balance sheet.

Recognized development costs are depreciated on a straight-line basis over the estimated useful life for the asset, usually not exceeding 10 years. Depreciation starts when the asset is ready for use. No depreciation has yet been performed for the development projects. The fair value of the development costs will be calculated when there is an indicator of change in value.

1.17 Leasing

Operating leases

Leases for which most of the risk rests with the other contracting party are classified as operating leases. Operating lease payment are classified as operating costs in the income statement on a straight-line basis over the lease term.

1.18 Share options

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed further below and in note 6.

Note 1 Accounting policies (continues)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

1.19 Impairment of assets

The Group assesses whether there are any indicators of impairment for all assets at each reporting date.

An assessment of impairment losses on assets is made when there is an indication of a fall in value. If an asset's carrying amount is higher than the asset's recoverable amount, an impairment loss will be recognised in the income statement. The recoverable amount is the higher of the fair value less costs to sell and the discounted cash flow from continued use. The fair value less costs to sell is the amount that can be obtained from a sale to an independent third party minus the sales costs. The recoverable amount is determined separately for all assets but, if this is impossible, it is determined together with the entity to which the assets belong.

Impairment losses recognised in the income statements of previous periods are reversed when there is information that the need for the impairment loss no longer exists or is not as great as it was. However, no reversal takes place if the reversal leads to the carrying amount exceeding what the carrying amount would have been if normal depreciation periods had been used.

1.20 Cash flow statement

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

1.21 Costs related to equity transactions

Costs directly related to equity transactions are recognised directly on the equity after deduction of tax.

1.22 Future changes in accounting policies

The Group has implemented all changes in standards and interpretations for 2010. The implementation of these changes have not resulted in any changes to the group beyond the information given in the notes.

Note 1 Accounting policies (continues)

The IASB issued amendments to its standards and the related Basis for Conclusions in its annual "improvements to IFRSs". The improvement project is an annual project that provides a mechanism for making necessary but non-urgent amendments. The improvements are effective for annual periods beginning on 1 July 2010 or later, but the improvements are not yet approved by the EU. The Group plans to implement the amendments from 1 January 2011.

IFRS 7 Financial Instruments - Disclosures: Emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. In addition changes are made to disclosure requirements relating to quantitative information and to credit risk. The Group plans to implement the change as of 1 January 2011. The Group does not anticipate that the implementation of this change will have any significant effect on the financial statements on the date of implementation.

IAS 34 Interim Financial Reporting: Provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements concerning circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The group has already implemented this change in the annual report, ref. note 15 and will implement this change in future quarterly reports - first time 1Q 2011.

Note 2 Public grants and development costs

(All figures in NOK)

The Group has previously received public grants from the Research Council of Norway and Skattefunn for the Badger Explorer development project in Badger Explorer ASA and the Plasma Channel Drilling project in Badger Plasma Technology AS. The Badger Explorer development project has been pledged grants from Skattefunn and Research Council of Norway for both 2009 and 2010. All development costs in the Badger Explorer Group related to these projects are capitalised except of NOK 5 589 623 for 2010 and 5 441 347 for 2009 related to a IFRS restriction on capitalisation of own personnel cost. Public grants related to the development projects are deducted in the carrying amount of the related asset.

Note 3 Financial items

(All figures in NOK)

	2010	2009
Interest income bank bonds held to maturity	16 363	2 280 783
Interest income related to cash and cash equivalents	1 666 757	3 152 119
Return on sales of bank bonds held to maturity	285 685	687 020
Loss on sale of market based shares in liquidity fund	-120 531	-
Net loss on market based shares in liquidity fund at fair value through profit and loss	-965 428	-
Management cost of market based shares in liquidity fund	-534 137	-
Other financial income	44 083	-
Other financial expenses	-1 431	-220 202
Currency gain	457 279	66 928
Currency loss	-361 551	-57 685
Net financial items	487 090	5 908 964

Note 4 Tax

(All figures in NOK)

Income tax expense	2010	2009
Payable tax	417 669	235 007
Changes in deferred tax	-	-
Total tax expense	**417 669**	**235 007**

Calculation of basis for tax		
Earnings before tax	-19 079 686	-10 923 433
Permanent differences*	2 425 936	973 511
Changes in temporary differences	18 145 423	10 789 232
Total basis for tax	**1 491 673**	**839 311**

Summary of temporary differences:		
Fixed assets	776 862	557 428
Loss carried forward	-54 533 286	-36 168 428
Total	**-53 756 423**	**-35 611 000**
Deferred tax asset	**-15 051 799**	**-9 971 080**

	Balance sheet	
Deferred tax asset	**2010**	**2009**
Loss carried forward	15 269 320	10 127 160
Fixed assets	-217 521	-156 080
Total deferred tax asset	**15 051 799**	**9 971 080**
Valuation allowance	-15 051 799	-9 971 080
Total deferred tax asset recognised in the balance sheet statement	**-**	**-**

Deferred tax asset is not recognised in the balance sheet as the Group is in a development phase and is currently generating losses.

Loss carried forward per 31.12.10 is due as follows	2010	2009
Unlimited carrying forward	54 533 286	36 168 428

Explanation of why tax cost does not amount to 28% of earnings before tax:	2010	2009
28 % tax of earnings before tax	-5 342 312	-3 058 561
Permanent differences*	679 262	272 583
Changes in deferred tax asset not recognised in the balance sheet.	5 080 719	3 020 985
Calculated tax cost	**417 669**	**235 007**
Effective tax rate **	-2,2 %	-2,2 %

Note 4 Tax (continues)

(All figures in NOK)

* Includes emission costs and non-deductible costs such as entertainment and non-taxable share dividends.

** Tax cost compared to earnings before tax.

The tax cost is related to tax on the profit in Calidus Engineering Ltd.

Note 5 Earnings per share

(All figures in NOK)

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Options awarded to employees at the end of 2006 and mid 2007 are waived and not included in the calculation of diluted earnings per share. The effect of the new awarded options to employees at mid September 2009 are included in the calculation of diluted earnings per share.

	2010	2009
Profit (loss) attributable to equity holders of the Company	-20 905 015	-12 730 493
Weighted average outstanding ordinary shares	18 439 040	18 439 040
Effect of dilution - share options	113 280	25 079
Weighted average outstanding diluted shares	18 552 320	18 464 119

Earnings per share	2010	2009
Ordinary	-1,13	-0,69
Diluted	-1,13	-0,69

Note 6 Salaries, other benefits, number of employees

(All figures in NOK)

Payroll and related costs	2010	2009
Salaries and vacation pay	19 643 538	14 867 387
Employers' national insurance contributions	3 119 374	2 252 603
Option plan payment (incl. national insurance contribution)	1 934 560	787 484
Remuneration to board	1 005 000	585 000
Other benefits (incl. pension scheme)	880 366	1 422 718
Total	**26 582 838**	**19 915 191**

The average number of employees in full time equivalent	43	40

Note 6 Salaries, other benefits, number of employees (continues)

(All figures in NOK)

Pensions

The pension scheme in Badger Explorer ASA and Badger Plasma Technology are defined contribution plans where agreed contributions are expensed as paid. Contribution comprising between 4% and 7% of an employee's salary is added to the pension plan. The Group has no further commitments towards pensions when the agreed contributions are paid. The Group's contribution costs are charged to the income statement in the year in which the contribution applies. The scheme fulfils the requirements in the law for obliged pension (OTP).

	2010	2009
Contribution expensed during the year	613 024	549 608

	2010		
Remuneration to members of Management	Salary	Other Benefits	Pension scheme costs
Chief Executive Officer (CEO)	1 614 231	18 599	47 478
Chief Financial Officer (CFO)	1 590 052	17 853	48 912
Chief Technology Officer (CTO)	1 339 421	16 098	46 985
Chief Project Manager (CPM)	1 180 911	12 487	47 478
Sr. Vice President Business Dev. & Strategy	1 337 775	16 488	46 282
Manager HR, Economy and Adm.	658 985	6 685	30 099
Manager Quality, Risk and Supply Chain*	548 923	7 880	27 403
Product Manager	896 318	13 797	39 353

	2009		
Remuneration to members of Management	Salary	Other Benefits	Pension scheme costs
Chief Executive Officer (CEO)	1 455 906	14 596	44 373
Chief Financial Officer (CFO)	1 503 499	14 658	44 373
Chief Technology Officer (CTO)	1 275 122	14 583	44 373
Chief Project Manager (CPM)	1 172 491	12 574	44 373
Sr. Vice President Business Dev. & Strategy**	469 067	3 761	11 673
Manager HR, Economy and Adm.	614 225	6 321	34 779

* Manager Quality, Risk and Supply Chain was employed 01.06.2010

** Sr. Vice President Business Dev. & Strategy was employed 01.10.2009

The CEO is entitled to three months severance pay in case of termination of employment by the Company after a notice period of three months.

At the end of 2010 Management of Badger Explorer ASA consists of CEO, CFO, CTO, CPM, Sr. Vice President Business Dev. & Strategy, Manager HR, Economy and Adm., Manager Quality, Risk and Supply Chain and Manager Development Project. Product Manager entered the Management when CPM went on leave.

Note 6 Salaries, other benefits, number of employees (continues)

(All figures in NOK)

The 20 000 options granted to CPM in 2006 were replaced with new options during 2009. The new option program is effective as of 15.09.2009 and 75 000 share options have been granted to CEO, 25 000 share options to CFO, 25 000 share options to CTO, 60 000 share options to CPM, 25 000 share options to Sr. Vice President Business Dev. & Strategy, 25 000 share options to Manager HR, Economy and Adm and 15 000 share options to Product Manager at strike of NOK 10. Manager Quality, Risk and Supply Chain was granted 25 000 share options on employment in 2010 at strike of NOK 15. The options entitle purchase of shares during a 3.2 year period until 15.11.2012. The options were "in the money" per 31.12.2010. No share options were exercised as of 31.12.2010.

Remuneration to Board of Directors for 2009 was approved by the Annual General Meeting in 2010 and is divided by NOK 300.000 to the Chairman of the Board, by NOK 150.000 to each Board Director with the addition of NOK 50,000 to board member of the Audit Committee, by NOK 25.000 to the chairman of the Nomination Committee and by NOK 15.000 to each the member of Nomination Committee. The below table reflects the expensed cost to the Board of Directors.

Remuneration to the Board of Directors	2010	2009
Knut Åm - Nomination Committee (2010), Chairman & Nomination Committee (2009)	15 000	160 000
Rolf E. Ahlqvist - Chairman, Nom. Committee, Audit Committee (2010), Nom. Committee (2009)	315 000	15 000
Bjørge Gretland - Director*	150 000	-
Kristine Holm - Director	150 000	100 000
Christian Bull Eriksson - Director	150 000	100 000
Kristijane Cook Bulukin - Director	-	100 000
Tone Kvåle - Director, Audit Committee	200 000	-
Geir Worum - Director	-	100 000
Rolf Norås Pettersen - Nomination Committee	-	10 000
Marcus Hansson - Nomination Committee**	25 000	-
Total remuneration	1 005 000	585 000

* As of 04.10.2010 Board member Bjørge Gretland resigned.

** At an Extraordinary General Meeting on 01.12.2010 Marcus Hansson was elected as a new Board member

Auditors fee	2010	2009
Audit fees	342 630	280 960
Assurance services	38 100	32 805
Other assistance	19 400	44 600
Total*	400 130	358 365

All fees excluding VAT.

*All services in 2009 and 2010 are recognised as expenses.

Note 6 Salaries, other benefits, number of employees (continues)

(All figures in NOK)

Employee options

In 3Q 2009 a new option program was established replacing options granted in 2006 and 2007. All employees in Badger Explorer ASA have been allocated options. Manager Quality, Risk and Supply Chain was allocated 25 000 shares on employment 01.06.2010. Outstanding options of 31.12.2010 were 407 250. Fair value of the options is calculated at the time of grant and will be recognized over the corresponding vesting period of the options. One third of the option can be exercised after one year, a third of the option can be exercised after two years and a third can be exercised after three years. The exercise of options can be postponed but not past the contractual life of 3.2 years. No options were exercised during 2010.

	2010		2009	
Summary of outstanding options:	**Share options exercise price**	**Weighted average**	**Share options exercise price**	**Weighted average**
Outstanding options 01.01	406 750	10,00	76 000	23,68
Granted options	25 000	15,00	406 750	10,00
Exercised options	-	-	-	-
Forfeited	-24 500	10,00	-76 000	23,68
Expired options	-	-	-	-
Outstanding options 31.12	407 250	10,31	406 750	10,00
Vested options	135 747	10,31	-	-
Weighted Average Fair Value of options granted during the period	25 000	9,81	406 750	6,48
Charged against the Income statement:	1 339 658		683 758	
Charged against the Income Statement - Employers' national insurance contribution:	594 902		103 726	

Fair value of the options is estimated based on the Black and Scholes option pricing model.

The calculation are based on the following assumptions:

The weighted average fair value of the options granted during the period is set to NOK 12,20 for options with strike price of 10 and to NOK 19,00 for options with strike price of 15. The weighted average expected volatility is set to 93,52% (83,67 - 100,63%). Expected share dividend is set to 0. The weighted average risk free interest rate is set to 2,97% (1,95% - 3,18%). The options' weighted average expected lifetime is 2,49 years (0,8 - 3,2 years). Employers' national insurance contribution is deposited. The options were "in the money" per 31.12.2010.

The Board of Directors holds an authorisation to issue shares in the Company resolved by the Annual General Meeting of the Company held on 21.04.2010. The authorisation is provided until 30.06.2011 in respect of increase in the Company's share capital with up to NOK 116.429 by way of issuance of up to 931 432 shares in connection with the Company's share incentive scheme.

Implemented remuneration policy for members of Management for 2010

The statement's main principle regarding the remuneration policy of members of the Group's Management was to offer competitive terms in an overall perspective, taking into account the base salary, payments in kind as well as bonuses and pension plans to avoid substantial turnover in the Management. The Group should offer salary levels that reflected the average salary levels in comparable Norwegian companies.

Note 6 Salaries, other benefits, number of employees (continues)

(All figures in NOK)

The determination of salaries and additional benefits of the Group's Management for 2010 was based on the above noted main principle and is further detailed as follows:

On 15 September 2009 a new share option program for all Company employees was established. Out of a total of 407 250 allocated share options the Company's Management has been allocated 275 000 share options, equaling 67.5% of all allocated share options, which may be exercised within 15.11.2012.

The base salaries for each member of the Management have been competitive and based on the individual's experience, responsibilities and the achieved results. Salaries as well as other benefits underwent an annual adjustment.

Members of Management were included in the general pension scheme established by the Company for all employees. The scheme is deposit based maximized to a percentage of 12G. The retirement age in the Group is 67 years. Upon termination of employment by the Company the CEO is entitled to three months severance pay.

The Group has not implemented any form of variable compensation or special benefits other than the above mentioned arrangement.

The compensation of the Management for 2010 was in line with the rules for the fiscal year 2010 as approved by the Annual General Meeting on 21 April 2010.

Remuneration policy for members of Management - Guidelines for 2011:

The main principle of the Group's remuneration policy of the Group's Management is to offer competitive terms in an overall perspective, taking into account salary, payments in kind as well as bonuses and pension plans to avoid substantial turnover in Management. The Group shall offer salary levels that reflect the average salary levels in comparable Norwegian companies.

The determination of salaries and additional benefits of the Group's Management for the fiscal year 2011 shall be based on the above noted main principle.

As a guideline the fixed salary for each member of the Group's Management shall be competitive and based on the individual's experience, responsibilities as well as the achieved results. Salaries as well as other benefits shall be annual adjusted.

In addition to their base salary the Group's Management may be granted additional remuneration (bonus). If a bonus scheme is implemented the assessment criteria will be divided into parts where one part will be based on the Group's performance and the other part will be based on the individual performance. The targets to be reached by the CEO are to be determined by the Company's Board of Directors. The CEO decides on the relevant targets for the other members of Management based on principles defined by BXPL's Board of Directors.

The Group's Management will receive payment in kind such as paid newspaper subscriptions, cell phone expenses and payment of IT and telecommunication expenses.

On 15 September 2009 a new share option program for all Company employees was established. Out of a total of 407 250 allocated share options the Company's Management has been allocated 275 000 share options equaling 67.5% of all allocated share options. The options can be exercised within 36 months as of September 2009 (29 months for the Manager Quality, Risk and Supply Chain) and can be exercised only in tranches, at the earliest 12 months subsequent to the time of issue and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results. Each option entitles the holder the right to purchase one share at a strike price of NOK 10.00 respectively NOK 15.00 (applicable for the 25,000 share options granted the Manager Quality, Risk and Supply Chain). Upon exercise of the options, the option holder shall pay to the Company a price of NOK 10.00 per option share. If on the exercise day the market price of the BXPL shares is exceeding NOK 50 the exercise price shall be increased by an amount equivalent to 8% of the marked price deducting NOK 50.

All members of the Company's Management are included in the defined contribution pension scheme established by BXPL for all its employees. The scheme is deposit based and maximized to a percentage of 12G. The retirement age for all employees including the Group's Management is 67 years.

The CEO is entitled to three months severance pay in case of termination of employment by the Company after a notice period of three months.

The Board of Directors of Badger Explorer ASA has prepared this statement in accordance with the Public Limited Liability Companies Act §6-16a and it will present it to the Annual General Meeting on 27 April 2011 for approval.

Note 7 Tangible fixed assets

(All figures in NOK)

Badger Explorer Group	Property, plant & equipment	Total 2010	Total 2009
Cost price 1.1	6 504 070	**6 504 070**	**5 448 837**
Additions	1 297 356	**1 297 356**	**1 055 232**
Cost price 31.12	7 801 426	**7 801 426**	**6 504 070**
Accumulated depreciations 31.12	-4 159 628	**-4 159 628**	**-3 170 879**
Booked value 31.12.	3 641 798	**3 641 798**	**3 333 191**

Depreciations	-988 748	-1 147 596
Depreciation rate %:	10% - 33%	10% - 33%
Economic life (years):	3 - 10	3 - 10
Depreciation method:	straight line	straight line

The depreciation period and method are assessed each year to ensure that the method and period used harmonize with the financial realities of the non-current asset. The same applies to the scrap value.

The Group has entered into operating leases for offices and other equipment. The cost is as follows:

Operating leasing cost	Total 2010	Total 2009
Operational leasing cost	83 703	95 571
Car leasing cost	83 859	105 472
Rent cost on buildings	2 257 219	2 140 020
Total	**2 424 781**	**2 341 063**

The future minimum rents related to non-cancellable leases fall due as follows for the Group:

	Within 1 year	2-5 years	After 5 years
Operational leasing cost	40 844	-	-
Car leasing cost	7 220	-	-
Rent cost on buildings	2 186 137	2 845 001	-
Land and buildings	196 676	327 223	-
Other	-	55 375	-
Total	2 430 878	3 227 600	-

The lease agreement for the main office (headquarter) has been entered into for a period of 5 years. This agreement expires on 31.05.2013 and includes an option to extend the agreement for 5 years with the same conditions. A lease agreement for additional office and workshop for Badger Explorer ASA has been entered into for a period of 1/2 year and expires on 30.06.2011. A lease agreement for 2 copy machines has been entered into for a period of 3 years and expires on 30.06.2011.

Note 8 Inventories

(All figures in NOK)

	2010	2009
Work in progress	4 196 067	805 816
Finished goods	17 210	48 591
Total	4 213 277	854 407

All inventories are valued at cost. No write-down for obsoleteness.

Note 9 Intangible assets

(All figures in NOK)

Badger Explorer Group has recognised the following intangible assets in the balance sheet (including internal built up assets such as development costs).

2010	Patents*	Development costs	Goodwill	Total
Cost price 01.01	400 000	64 010 480	5 709 840	**70 120 319**
Additions	-	26 950 197	-	**26 950 197**
Currency translation difference	-	-	-69 647	**-69 647**
Public grants	-	-1 805 110	-	**-1 805 110**
Cost price 31.12	400 000	89 155 567	5 640 192	**95 195 760**
Accumulated depreciations 31.12	13 332			**13 332**
Booked value 31.12.	**386 668**	**89 155 567**	**5 640 192**	**95 182 427**

2009				
Cost price 01.01	400 000	35 426 241	6 202 563	**42 028 804**
Additions	-	30 561 242	-	**30 561 242**
Currency translation difference	-	-	-492 724	**-492 724**
Public grants	-	-1 977 003	-	**-1 977 003**
Cost price 31.12	400 000	64 010 480	5 709 840	**70 120 319**
Accumulated depreciations 31.12	13 332	-	-	**13 332**
Booked value 31.12.	**386 668**	**64 010 480**	**5 709 840**	**70 106 987**

	2010	2009
Depreciation	-	-

* The patent applies to the Badger Explorer technology and has a validity of 20 years from date it was granted. The Development costs applies to the development of the Badger Explorer technology in Badger Explorer ASA and the Plasma Channel Drilling technology in Badger Plasma Technology AS. Goodwill applies to the 50% acquisition of Calidus Engineering Ltd. Depreciation will commence when the technology is ready for its intended use.

Note 10 Accounts receivables

(All figures in NOK)

	2010	2009
Accounts receivables	3 958 992	1 520 288
Skattefunn & RCN receivables	1 805 108	1 977 001
Other receivables	1 099 563	1 137 619
Total	**6 863 663**	**4 634 908**

There is no provision for losses on receivables. Other receivables are mainly related to government grants and prepaid expenses. For age distribution of accounts receivables see note 15.

Note 11 Cash and cash equivalents

	2010	2009
Cash at bank	45 887 783	107 315 911
Restricted bank deposits	894 985	983 692

Note 12 Share capital, share premium account, numbers of shares, shareholders etc.

Number of shares	2010	2009
01.01.	18 439 040	18 439 040
Split of share	-	-
Capital increase	-	-
31.12.	**18 439 040**	**18 439 040**

Nominal value per share is NOK 0,125.

Note 12 Share capital, share premium account, numbers of shares, shareholders etc. (continues)

(All figures in NOK)

As of 31.12.2010, the 20 largest shareholders were:	No. of shares	% share
CONVEXA CAPITAL IV AS	3 200 780	17,4 %
STATE STREET BANK AND TRUST CO.	2 699 997	14,6 %
BANK OF NEW YORK MELLON SA/NV	922 224	5,0 %
ODIN OFFSHORE	800 000	4,3 %
BANK OF NEW YORK MELLON SA/NV	738 021	4,0 %
HOLBERG NORDEN	603 234	3,3 %
IRIS-FORSKNINGSINVEST AS	589 122	3,2 %
SIX SIS AG 25PCT	532 367	2,9 %
AHLQVIST INVEST AS	465 407	2,5 %
BANK OF NEW YORK MELLON (LUX) S.A.	342 373	1,9 %
DALVIN RÅDGIVNING AS	301 872	1,6 %
ANØY INVEST DA	248 800	1,3 %
KNUT ÅM	242 600	1,3 %
HOLBERG NORGE	236 866	1,3 %
KJELL ERIK DREVDAL	222 600	1,2 %
CSV II AS	214 000	1,2 %
MP PENSJON PK	213 200	1,2 %
NILSHOLMEN INVESTERING AS	209 222	1,1 %
SIGMUND STOKKA	204 440	1,1 %
THE NORTHERN TRUST CO.	200 000	1,1 %
20 largest shareholders	13 187 125	71,5 %
841 other shareholders	5 251 915	28,5 %
Total of 861 shareholders	**18 439 040**	**100%**

All shares have equal voting rights.

The Board of Directors holds two authorisations to issue shares in the Company resolved by the Annual General Meeting of 21.04.2010. These authorisations are valid for the period until the next annual general meeting to be held in 2011, with expiry date 30 June 2011. The first authorization is provided for increasing the Company's share capital with up to NOK 225 488 by way of issuance of up to 1 803 904 shares in connection with the issuance of shares to existing shareholders and new investors for a cash deposit or cash contributions and mergers. The second authorization is provided for increasing the Company's share capital with up to NOK 116 429 by way of issuance of up to 931 432 shares in connection with the issuance of shares to employees, directors and others connected with the Company as part of the Company's share incentive scheme and the share issue against payment in other cash payment (contribution).

Note 13 Related-party transactions

(All figues in NOK)

Transactions with shareholders	2010	2009
Accounts payable*	-	310 530
Purchased services*	4 255 343	7 984 565

*The Company has purchased engineering- and production services from Calidus Engineering Ltd. in which Badger Explorer ASA owns 50% and Nigel Halladay owns 50% of the shares. Nigel Halladay also owns 43 000 shares in Badger Explorer ASA.

All purchased services from Calidus Engineering Ltd. in 2010 are related to the development project in Badger Explorer ASA.

All transactions between Calidus Engineering Ltd. and Badger Explorer ASA are eliminated in Badger Explorer Group.

At the Extraordinary General Meeting on 1 December 2010 the General Meeting provided the Board of Directors with a proxy to enter into agreements with close associates for the period as of 1 December 2010 until 31 December 2011. The remuneration shall be limited to NOK 1,500 per hour and time schedule and detailed specifications of duties shall be approved by the Company's Board of Directors prior to entering of such agreements. Badger Explorer ASA has not entered into such agreements with close associates as of 31.12.2010.

Shares held by members of the Board of Directors and members of Management	2010	2009
Convexa Capital IV AS (Director - Bjørge Gretland)*	3 200 780	3 200 780
SIX SIS AG 25PCT (Director - Marcus Hansson)	500 000	500 000
Ahlqvist Invest AS (Chairman - Rolf E. Ahlqvist)	465 407	465 407
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	301 872	301 872
CEO - Kjell Erik Drevdal	222 600	222 600
Convexa AS (Director - Bjørge Gretland)	-	100 000
Nilsholmen Investering AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	209 222	-
J.P. Morgan Bank Luxembourg S.A (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	-	149 222
SEB Private Bank S.A. Luxembourg (Director - Marcus Hansson)	65 000	65 000
Nilsholmen AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	20 200	80 200
Invest OK AS (Director - Kristine Holm)	15 000	15 000
Director - Marcus Hansson	11 668	-
5K International (CEO - Kjell Erik Drevdal)	10 000	10 000
Chevni AS (Director - Christian Bull Eriksson)	6 000	6 000
CFO - Gunnar Dolven	5 000	-
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	1 000	1 000
Ordinary shares	**5 043 707**	**5 127 039**
% of total shares	27,4 %	27,8 %

* As of 04.10.2010 Bjørge Gretland resigned as Board Director

Note 14 Conditional commitments

(All figues in NOK)

Contribution recognised in the balance sheet

The Group has received contributions from the partners amounting to NOK 17 935 200 whereas NOK 13 855 200 were received prior to 2010. These contributions shall be repaid to the partners by paying 5% royalty of all technology related sales in the future. This royalty is limited to a total of 150% of received contribution. The contributions have not been recognised as income.

Note 15 Financial risk management objectives and policies

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 rates. The Group has a very limited number of other transactions in foreign currency which consequently gives a very low currency risk. The Group's cash reserve of MNOK 45.9 is divided by MNOK 44 deposited in Norwegian banks at NIBOR plus contracts and MNOK 1.9 (MGBP 0.2) in British banks whereas kGBP 22.2 are in JPY (2,803,994) and kGBP 0,1 are in EUR (131) which gives a very low percentage of cash deposited in other currency than the operating currency which give a low currency risk. All of the Group's financial instruments are in NOK and thus no foreign currency risk incurs.

Interest rate risk

The Group does not have any interest-bearing debt. The Group has MNOK 1.5 in net financial income as of 31.12.2010. 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 this interest risk is considered to be low.

Market risk

The Group has invested 53.9 million in First Norway Alpha KL IV-IA, 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 value of the shares are monitored on a daily basis. The shares are not under any contractual obligation unless for a 3 days notice for settlement when selling the shares. The Group aims to earn interests equivalent to the market rate at any time.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group'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 Group's exposure to bad debts is not significant. The Group has experienced a loss of NOK 8 323 on receivables during the last 2 years. The maximum exposure as of 31.12.2010 is MNOK 4, the carrying amount of accounts receivables . All cash in the Group's Norwegian companies are deposited and distributed between two Norwegian banks which are considered to be a risk reducing initiative. All cash in Calidus Engineering Ltd. are deposited in British banks.

Liquidity risk

The Group has a very solid liquidity situation and consider the liquidity risk for the next couple of years to be non-existing at current cash burning rate.

Capital management

Capital includes equity attributable to the equity holders of the parent.

The primary focus of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximize shareholders value.

Note 15 Financial risk management objectives and policies (continues)

(All figures in NOK)

The Group manages its capital structure and makes adjustments to it, in light of changes in the economic conditions. To maintain or adjust the capital structure the Group may issue new shares. No changes were made in the objectives, policies or processes during 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Since the Group does not have any interest bearing loans; the gearing ratio is negative for both 2009 and 2010.

The Group includes within net debt, trade and other payables, less cash and cash equivalents.

(All figures in NOK)	2010	2009
Interest bearing loans and borrowings	79 832	0
Trade and other payables	8 302 526	5 635 412
Less cash and short-term deposits	-98 503 316	-107 315 911
Net debt	**-90 120 958**	**-101 680 499**
Equity	175 994 314	195 851 458
Total capital	**175 994 314**	**195 851 458**
Capital and net debt	**85 873 356**	**94 170 959**
Gearing ratio	-105%	-108%

Fair value

The fair value of financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

- Fair value of bank bonds is based on price quotations as of 31.12

- Fair value of investment in shares in market based liquidity fund is based on price quotations as of 31.12

- Fair value of cash and cash equivalent are assessed to carrying amount

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments.

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Bank bonds held to maturity	0	0	33 781 615	34 091 000
Shares in liquidity fund at fair value through profit and loss	52 615 534	52 615 534	0	0
Cash and cash equivalents	45 887 783	45 887 783	107 315 911	107 315 911
Current receivables	6 863 663	6 863 663	4 634 908	4 634 908
Trade and other payables	8 302 526	8 302 526	5 635 412	5 635 412

Note 15 Financial risk management objectives and policies (continues)

(All figures in NOK)

<u>Fair value hierarchy</u>

As at 31.12.2010, the Group held the following financial instruments carried at fair value on the statement of financial positions. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets of liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Financial assets measured at fair value	2010	Level 1	Level 2	Level 3
Shares in liquidity fund at fair value through profit and loss	52 615 534	52 615 534		

Age distribution of receivable

AS at 31 December, the ageing analysis of receivables is as follows:

		Neither past due nor	Past due but not impaired				
	Total	impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
2010	6 863 663	5 700 021	170 521	725 150	2 597	0	265 374
2009	4 634 908	4 570 343	13 236	663	34 646	-299	16 319

The Group has experienced a loss of NOK 8 323 on receivables during the last 2 years.

Financial assets

Specification of shares in First Norway Alpha KL IV-IA liquidity fund	Number of shares	Subscription price per share	Subscription price	Carrying amount per share	Carrying amount
Subscription of shares 08.01.10	54 045	1 110	60 000 000	1 105	59 701 493
Sale of shares*	-5 513	1 110	-6 120 531	1 088	-6 000 000
Shares 31.12.10	48 532	1 110	53 879 469	1 084	52 615 534

* A loss of NOK 120 531 was realized in connection with sale of financial assets (see note 3).

	2010	2009
Interest income from bank bonds. All Bank bonds were sold in 2010.	16 363	2 280 783

Note 15 Financial risk management objectives and policies (continues)

(All figures in NOK)

The table below shows the segments of which the Management is reporting to the Board of Directors. The segments are the main projects, engineering and other activities (mainly administration).

The column "Badger Explorer" includes all transaction related to the development of the Badger Explorer tool in the company Badger Explorer ASA. The column "Badger Plasma" includes all transaction related to the development of the Plasma Channel Drilling technology in the company Badger Plasma Technology AS. The column "Engineering" includes all transactions in Calidus Engineering Ltd. and 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 companies Badger Explorer ASA and Badger Plasma Technology AS are included in this column.

Inter-segment transactions are eliminated upon consolidation and reflected in the elimination column. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Capital expenditure are net after public grants.

Business segments - 2010	Badger Explorer	Badger Plasma	Engineering	Other	Elimination	Total
Revenue						
Third party	1 805 110	0	11 530 993	525 303	0	13 861 406
Inter-segment	0	0	4 245 974	0	-4 245 974	0
Capitalisation	-1 805 110	0	0	0	0	-1 805 110
Total revenue	**0**	**0**	**15 776 967**	**525 303**	**-4 245 974**	**12 056 296**
Results						
Depreciation	0	0	156 784	831 964	0	988 748
Segment expenses	32 539 821	0	12 147 669	16 750 921	-3 853 890	57 584 521
Capitalisation of expenses	-26 950 197	0	0	0	0	-26 950 197
EBIT	**-5 589 623**	**0**	**3 472 514**	**-17 057 583**	**-392 084**	**-19 566 776**
Net financial items	**0**	**0**	-239 525	334 532	**392 084**	487 090
EBT	**-5 589 623**	**0**	**3 232 989**	**-16 723 051**	**0**	**-19 079 686**
Tax	0	0	-417 669	0	0	-417 669
Net profit (loss)	**-5 589 623**	**0**	**2 815 320**	**-16 723 051**	**0**	**-19 497 354**
Profit (loss) attributable to non-controlling interest	0	0	1 407 660	0	0	1 407 660
Segment profit (loss)	**-5 589 623**	**0**	**1 407 660**	**-16 723 051**	**0**	**-20 905 015**
Total assets	**85 061 234**	**5 899 441**	**21 249 710**	**102 463 425**	**-6 269 329**	**208 404 482**
Total liabilities	**14 612 790**	**4 975 200**	**1 408 547**	**5 321 021**	**-0**	**26 317 558**
Capital expenditure	**25 145 087**	**0**	**654 600**	**642 756**	**0**	**26 442 444**

Note 16 Segment reporting

(All figures in NOK)

Geographical segments - 2010	Norway	UK	Elimination	Total
Total revenue	**525 303**	**15 776 967**	**-4 245 974**	**12 056 296**
Total assets	**193 424 100**	**21 249 710**	**-6 269 329**	**208 404 482**
Total liabilities	**24 909 012**	**1 408 547**	**-0**	**26 317 558**
Capital expenditure	**25 787 844**	**654 600**	**0**	**26 442 444**

Business segments - 2009	Badger Explorer	Badger Plasma	Engineering	Other	Elimination	Total
Revenue						
Third party	1 977 003	0	8 888 829	88 821	0	10 954 652
Inter-segment	0	0	8 005 419	7 644	-8 013 063	0
Capitalisation	-1 977 003	0	0	0	0	-1 977 003
Total revenue	**0**	**0**	**16 894 247**	**96 465**	**-8 013 063**	**8 977 649**
Results						
Depreciation	0	0	336 925	810 671	0	1 147 596
Segment expenses	35 834 874	167 716	12 781 313	14 250 119	-7 810 328	55 223 693
Capitalisation of expenses	-30 393 527	-167 716	0	0	0	-30 561 242
EBIT	**-5 441 347**	**0**	**3 776 009**	**-14 964 325**	**-202 735**	**-16 832 397**
Net financial items	0	0	-396 896	6 103 126	202 735	5 908 964
EBT	**-5 441 347**	**0**	**3 379 114**	**-8 861 199**	**0**	**-10 923 433**
Tax	0	0	-235 007	0	0	-235 007
Net profit (loss)	**-5 441 347**	**0**	**3 144 107**	**-8 861 199**	**0**	**-11 158 439**
Profit (loss) attributable to non-controlling interest	0	0	1 572 054	0	0	1 572 054
Segment profit (loss)	**-5 441 347**	**0**	**1 572 053**	**-8 861 199**	**0**	**-12 730 493**
Total assets	**60 088 039**	**5 899 441**	**18 093 747**	**142 456 002**	**-6 510 211**	**220 027 019**
Total liabilities	**11 116 264**	**4 975 200**	**781 171**	**2 928 507**	**-310 530**	**19 490 612**
Capital expenditure	**28 416 524**	**167 716**	**491 391**	**563 842**	**0**	**29 639 472**

Note 16 Segment reporting (continues)

(All figures in NOK)

Geographical segments - 2009	Norway	UK	Elimination	Total
Total revenue	**96 465**	**16 894 247**	**-8 013 063**	**8 977 649**
Total assets	**208 443 483**	**18 093 747**	**-6 510 211**	**220 027 019**
Total liabilities	**19 019 971**	**781 171**	**-310 530**	**19 490 612**
Capital expenditure	**29 148 081**	**491 391**	**0**	**29 639 472**

Note 17 Subsidiaries

(All figures in NOK)

Badger Plasma Technology AS

Badger Plasma Technology AS is a private limited company registered in Norway and has its head office located at Jåttåvågveien 7 - Building C, 4020 Stavanger, Norway. Badger Plasma Technology AS was established on the 05.03.2007 in order to increase focus and activity level of the development and commercialisation of the Plasma Channel Drilling technology. All historic investments, public grants and capitalised grants related to the Plasma Channel Drilling (PCD) project and related administration costs have been transferred from Badger Explorer ASA to Badger Plasma Technology AS and are recognized on the accounts receivables in Badger Explorer ASA's Statement of Financial Position and on the accounts payable in Badger Plasma Technology AS's Statement of Financial Position. The activity level in Badger Plasma Technology AS has been low during 2009 due to high focus on the Badger Explorer project.

Transfer of investments, public grants and capitalised grants to Badger Plasma Technology AS	
Transfers as of 01.01.2009	2 180 165
Payment of historic development costs, PCD	-144 606
Transfer of development costs, PCD	324
Transfers as of 31.12.2009	2 035 882
Payment of historic development costs, PCD	-324
Transfers as of 31.12.2010	2 035 558

Transactions with Badger Plasma Technology AS	2010	2009
Accounts receivable (including transfers)	-2 035 558	-2 035 882
Purchased services	1 630	916
Sold Services	259	434 750

Badger Explorer ASA owns 100% of the shares in Badger Plasma Technology AS.

All shares have equal voting rights.

Calidus Engineering Ltd.

At the end of November 2007, Badger Explorer ASA acquired 50% of the shares in Calidus Engineering Ltd., a UK based engineering company. Calidus Engineering Ltd. is a private limited company registered in UK and has its office located at Unit 7A, Tregoniggie Industrial Estate, Falmouth, Cornwall TR11 4SN, UK. The parties have agreed upon an acquisition model in which Badger Explorer ASA gradually will acquire 100% of Calidus Engineering Ltd. until 2013. Badger Explorer ASA has initially acquire

Note 17 Subsidiaries (continues)

(All figures in NOK)

50% of Calidus Engineering Ltd. through a combined purchase of outstanding shares and a share issue. In 2011 Calidus Engineering will sell additional 25% of its shares to Badger Explorer ASA. The concept for the price per share is pre-defined in the shareholder agreement. In 2013 Calidus Engineering Ltd. has the right to sell the remaining 25% of its shares to Badger Explorer ASA. All shares in Calidus Engineering Ltd. have equal voting rights.

Since 01.12.2007 Calidus Engineering Ltd. is consolidated with a 50% non-controlling interest.

Transactions with Calidus Engineering Ltd.	2010	2009
Accounts payable	-	310 530
Purchased services	4 255 343	7 984 565

Note 18 Impairment testing of Goodwill

(All figures in NOK)

Goodwill acquired through business combinations have been allocated to one cash-generating unit for impairment testing, which is equal to the acquired entity Calidus Engineering Ltd. (Calidus).

	2010	2009
Carrying amount of goodwill allocated to the cash-generating unit	5 640 192	5 709 840

See also note 9.

Calidus Engineering Ltd.

The recoverable amount of Calidus has been determined based on a value-in-use calculation using cash flow projections based on reasonable and supportable assumptions from financial budgets approved by the management of Calidus covering a five-year period. None of the projected cash flows includes cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. The carrying amount in GBP has been revaluated to the NOK exchange rate at 31.12.2010.

<u>Key assumptions used in value-in-use calculations</u>

The calculation of value-in-use for Calidus is most sensitive to the following assumptions:

- Operating margin
- Growth rate used to extrapolate cash flows beyond the budget period.
- Discount rates after tax

Operating margin is set to 22% for the whole 5 year period, which is lower than the actual operating margin of Calidus Engineering Ltd. in 2010 of approx. 23%.

Growth rate estimates – The growth rate in the extrapolation period is set to 2.5%. The growth rate is based on average expected growth in the Engineering business and does not exceed the growth rates for the products, industry or country in which Calidus Engineering Ltd operates.

Discount rate - The discount rate applied to cash flow projections is 9.3%. Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to Calidus Engineering Ltd. for which future estimates of cash-flows have not been adjusted.

<u>Sensitivity to changes in assumptions</u>

With regard to the assessment of value-in-use of Calidus Engineering Ltd., the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Badger Explorer ASA

Income statement - Badger Explorer ASA

All figures in NOK

	Note	2010	2009
REVENUES			
Other Income		525 303	96 465
Public grants	2	1 805 110	1 977 003
Capitalised public grants	2,9	-1 805 110	-1 977 003
Total revenues		**525 303**	**96 465**
OPERATING EXPENSES			
External services for dev. project		16 888 875	20 599 102
Payroll and related cost	6	22 784 267	19 483 457
Depreciation	7,9	822 900	802 362
Other operating expenses		9 606 090	9 829 588
Capitalised development cost	2,9	-26 950 197	-30 393 527
Total operating expenses		**23 151 934**	**20 320 983**
Operating profit (loss)		**-22 626 632**	**-20 224 518**
Financial income	3	1 303 861	6 118 940
Financial expenses	3	1 017 481	68 772
Net financial items		**286 380**	**6 050 168**
Profit (loss) before taxes		**-22 340 252**	**-14 174 350**
Tax on ordinary result	4	0	0
Net profit (loss)	**5**	**-22 340 252**	**-14 174 350**
Allocation			
Retained earnings		-22 340 252	-14 174 350
Total allocation		**-22 340 252**	**-14 174 350**
Earnings per share	5	-1,21	-0,77
Earnings per share diluted	5	-1,20	-0,77

Statement of financial position - Badger Explorer ASA

All figures in NOK

ASSETS	Note	2010	2009
NON-CURRENT ASSETS			
Development costs	2,9	83 256 126	58 111 038
Patent rights	9	386 668	386 668
Total intangible assets		**83 642 794**	**58 497 706**
Property, plant & equipment	7	1 219 330	1 556 258
Total tangible assets		**1 219 330**	**1 556 258**
Investment in subsidiaries	16	11 909 521	11 909 521
Investment in shares in liquidity fund	15	52 615 534	0
Total financial assets		**64 525 055**	**11 909 521**
TOTAL NON-CURRENT ASSETS		**149 387 179**	**71 963 485**
CURRENT ASSETS			
Inventories	8	**17 210**	**48 591**
Accounts receivables	10,15,16	2 180 484	2 052 201
Other receivables	10,15	2 904 671	3 114 621
Total receivables		**5 085 155**	**5 166 822**
Bank bonds	15	0	33 781 615
Total current financial assets		**0**	**33 781 615**
Cash and cash equivalents	11	**40 782 968**	**99 360 907**
TOTAL CURRENT ASSETS		**45 885 333**	**138 357 935**
TOTAL ASSETS		**195 272 511**	**210 321 421**

EQUITY AND LIABILITIES	Note	2010	2009
EQUITY			
Share capital	12	2 304 880	2 304 880
Share premium fund		217 099 786	217 099 786
Other paid in capital	6	2 285 528	945 870
Total paid in equity		**221 690 194**	**220 350 536**
Retained earnings		-46 414 133	-24 073 881
Total retained earnings		**-46 414 133**	**-24 073 881**
TOTAL EQUITY		**175 276 061**	**196 276 655**
LIABILITIES			
Capitalised grants	14	12 960 000	8 880 000
Total long term liabilities		**12 960 000**	**8 880 000**
Accounts payable	13,16	3 093 100	3 522 113
Public duties payables		2 214 016	17 453
Other short term liabilities		1 729 333	1 625 200
Total short term liabilities		**7 036 449**	**5 164 766**
TOTAL LIABILITIES		**19 996 449**	**14 044 766**
TOTAL EQUITY AND LIABILITIES		**195 272 511**	**210 321 421**

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

Statement of change in equity - Badger Explorer ASA

All figures in NOK

	Share capital	Share premium fund	Other paid in capital	Retained earnings	Total equity
Equity per 01.01.2009	2 304 880	217 099 786	262 112	-9 899 531	209 767 247
Profit (loss) for the year				-14 174 350	-14 174 350
Option plan payment			683 758		683 758
Equity per 31.12.2009	2 304 880	217 099 786	945 870	-24 073 881	196 276 655
Profit (loss) for the year				-22 340 252	-22 340 252
Option plan payment			1 339 658		1 339 658
Equity per 31.12.2010	2 304 880	217 099 786	2 285 528	-46 414 133	175 276 061

Statement of cash flow - Badger Explorer ASA

All figures in NOK

	Note	2010	2009
Cash flow from operational activities			
Contributions from operations*		-20 464 074	-18 738 398
Change in accounts receivable and accounts payable		-557 297	1 433 488
Change in other receivables and payables		2 542 028	2 603 843
Net cash flow from operating activities	**A**	**-18 479 342**	**-14 701 067**
Cash flow from investment activities			
Investment in fixed asset	7	-485 971	-563 843
Investment in bank bonds	15	33 781 615	5 591 280
Investment in shares in liquidity fund	15	-52 615 534	0
Capitalisation of development cost	9	-26 950 197	-30 393 527
Net cash flow from investment activities	**B**	**-46 270 087**	**-25 366 090**
Cash flow from financing activities			
Public grants		1 805 110	1 977 003
Other changes in long term receivables and payables	14	4 080 000	0
Interest paid		-1 017 481	-68 772
Interest received		1 303 861	6 118 940
Net cash flow from financing activities	**C**	**6 171 490**	**8 027 171**
Total net changes in cash flow	A+B+C	-58 577 939	-32 039 986
Cash and cash equivalents 1.1		99 360 907	131 400 892
Cash and cash equivalents 31.12.**		**40 782 967**	**99 360 907**

	Note	2010	2009
Net result		-22 340 252	-14 174 350
Employee options	6	1 339 658	683 758
Depreciation	7	822 900	802 362
Financial income		-1 303 861	-6 118 940
Financial expences		1 017 481	68 772
***Total contributions from operations**		**-20 464 074**	**-18 738 398**

** Bank bonds of MNOK 33.8 have been sold and investment of MNOK 52.7 have been made in liquidity fund during 2010.

Note 1 Accounting Policies

(All figures in NOK)

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 Jåttåvågveien 7 - Building C, 4020 Stavanger, Norway.

The financial statement of Badger Explorer ASA has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as of 31.12.10.

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.

1.1 Investment in subsidiaries
Investments in subsidiaries are accounted in accordance with the cost method.

1.2 Other accounting policies
The financial statement for the Company has been prepared in accordance with the principles used for the Badger Explorer Group (the Group). Reference is thus made to the accounting policies 1.1 - 1.22 of the Group.

Note 2 Public grants and development costs

(All figures in NOK)

The Company has previously received public grants from the Research Council of Norway and Skattefunn for the Badger Explorer development project. The Badger Explorer development project has been pledged grants from Skattefunn and Research Council of Norway for both 2009 and 2010. All development costs in the Company are related to this project are capitalised except of NOK 5 589 623 for 2010 and 5 441 347 for 2009 related to a IFRS restriction on capitalisation of own personnel cost. Public grants related to the development project are deducted in the carrying amount of the related asset.

Note 3 Financial items

(All figures in NOK)

	2010	2009
Interest income bank bonds held to maturity	16 363	2 280 783
Interest income related to cash and cash equivalents	1 465 878	3 066 488
Return on sales of bank bonds held to maturity	285 685	687 020
Loss on sale of market based shares in liquidity fund	-120 531	-
Net loss on market based shares in liquidity fund at fair value through profit and loss	-965 428	-
Management cost of market based shares in liquidity fund	-534 137	-
Other financial income	44 083	17 721
Other financial expenses	-1 263	-11 088
Currency gain	457 279	66 928
Currency loss	-361 551	-57 685
Net financial items	286 380	6 050 168

Note 4 Tax

(All figures in NOK)

Income tax expense	**2010**	**2009**
Payable tax	0	0
Changes in deferred tax	0	0
Total tax expense	**0**	**0**

Calculation of basis for tax		
Earnings before tax	-22 340 252	-14 174 350
Permanent differences*	2 425 936	150 363
Changes in temporary differences	203 048	106 341
Total basis for tax	**-19 711 268**	**-13 917 645**

Summary of temporary differences:		
Fixed assets	-337 838	-134 790
Loss carried forward	-60 369 206	-40 657 938
Total	**-60 707 044**	**-40 792 728**
Deferred tax asset	**-16 997 972**	**-11 421 964**

Deferred tax asset - Balance sheet	**2010**	**2009**
Fixed assets	94 595	37 741
Loss carried forward	16 903 378	11 384 223
Total deferred tax asset	**16 997 972**	**11 421 964**
Valuation allowance	-16 997 972	-11 421 964
Total deferred tax asset recognised in the balance sheet statement	**0**	**0**

Deferred tax asset is not recognised in the balance sheet as the Company is in a development phase and is currently generating losses.

Losses carried forward per 31.12.10 is due as follows:	**2010**	**2009**
Unlimited carrying forward	60 369 206	40 657 938

Explanation of why tax cost does not amount to 28% of earnings before tax:	**2010**	**2009**
28 % tax of earnings before tax	-6 255 271	-3 968 818
Permanent differences *	679 262	42 102
Changes in deferred tax asset not recognised in the balance sheet.	5 576 008	3 926 716
Calculated tax cost	**0**	**0**
Effective tax rate**	0%	0%

* Includes emission costs, value adjustment of financial instruments and non-deductible costs such as entertainment and non-taxable share dividends.

** Tax cost compared to earnings before tax.

Note 5 Earnings per share

(All figures in NOK)

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Options awarded to employees at the end of 2006 and mid 2007 are waived and not included in the calculation of diluted earnings per share. The effect of the new awarded options to employees at mid September 2009 are included in the calculation of diluted earnings per share both for 2009 and 2010.

	2010	**2009**
Profit (loss)	-22 340 252	-14 174 350
Weighted average outstanding ordinary shares	18 439 040	18 439 040
Effect of dilution - share options	113 280	25 079
Weighted average outstanding diluted shares	18 552 320	18 464 119

Earnings per share	**2010**	**2009**
Ordinary	-1,21	-0,77
Diluted	-1,20	-0,77

Note 6 Salaries, other benefits, number of employees

(All figures in NOK)

Payroll and related costs	**2010**	**2009**
Salaries and vacation pay	15 821 386	14 435 653
Employers' national insurance contributions	3 122 519	2 252 603
Option plan payment (incl. national insurance contribution)	1 934 560	787 484
Remuneration to board	1 005 000	585 000
Other benefits (incl. pension scheme)	900 802	1 422 718
Total	**22 784 267**	**19 483 457**

	2010	**2009**
The average number of employees in full time equivalent	18	18

Pensions

The pension scheme in Badger Explorer ASA is defined contribution plans where agreed contributions are expensed as paid. Contribution comprising between 4% and 7% of an employee's salary is added to the pension plan. The Company has no further commitments towards pensions when the agreed contributions are paid. The Company's contribution costs are charged to the income statement in the year in which the contribution applies. The scheme fulfils the requirements of the law for obliged pension (OTP).

	2010	**2009**
Contribution expensed during the year	613 024	549 608

Note 6 Salaries, other benefits, number of employees (contiunes)

(All figures in NOK)

	2010		
Remuneration to members of Management	**Salary**	**Other Benefits**	**Pension scheme costs**
Chief Executive Officer (CEO)	1 614 231	18 599	47 478
Chief Financial Officer (CFO)	1 590 052	17 853	48 912
Chief Technology Officer (CTO)	1 339 421	16 098	46 985
Chief Project Manager (CPM)	1 180 911	12 487	47 478
Sr. Vice President Business Dev. & Strategy	1 337 775	16 488	46 282
Manager HR, Economy and Adm.	658 985	6 685	30 099
Manager Quality, Risk and Supply Chain*	548 923	7 880	27 403
Product Manager	896 318	13 797	39 353

	2009		
Remuneration to members of Management	**Salary**	**Other Benefits**	**Pension scheme costs**
Chief Executive Officer (CEO)	1 455 906	14 596	44 373
Chief Financial Officer (CFO)	1 503 499	14 658	44 373
Chief Technology Officer (CTO)	1 275 122	14 583	44 373
Chief Project Manager (CPM)	1 172 491	12 574	44 373
Sr. Vice President Business Dev. & Strategy**	469 067	3 761	11 673
Manager HR, Economy and Adm.	614 225	6 321	34 779

* Manager Quality, Risk and Supply Chain was employed 01.06.2010

** Sr. Vice President Business Dev. & Strategy was employed 01.10.2009

The CEO is entitled to three months severance pay in case of termination of employment by the Company after a notice period of three months.

At the end of 2010 Management of Badger Explorer ASA consists of CEO, CFO, CTO, CPM, Sr. Vice President Business Dev. & Strategy, Manager HR, Economy and Adm., Manager Quality, Risk and Supply Chain and Product Manager. Product Manager entered the Management when CPM went on leave.

The 20 000 options granted to CPM in 2006 were replaced with new options during 2009. The new option program is effective as of 15.09.2009 and 75 000 share options have been granted to CEO, 25 000 share options to CFO, 25 000 share options to CTO, 60 000 share options to CPM, 25 000 share options to Sr. Vice President Business Dev. & Strategy, 25 000 share options to Manager HR, Economy and Adm and 15 000 share options to Product Manager at strike of NOK 10. Manager Quality, Risk and Supply Chain was granted 25 000 share options on employment in 2010 at strike of NOK 15. The options entitle purchase of shares during a 3.2 year period until 15.11.2012. The options were "in the money" per 31.12.2010. No share options were exercised as of 31.12.2010.

Note 6 Salaries, other benefits, number of employees (continues)

(All figures in NOK)

Remuneration to Board of Directors for 2009 was approved by the Annual General Meeting in 2010 and is divided by NOK 300.000 to the Chairman of the Board, by NOK 150.000 to each Board Director with the addition of NOK 50,000 to board member of the Audit Committee, by NOK 25.000 to the chairman of the Nomination Committee and by NOK 15.000 to each the member of Nomination Committee. The below table reflects the expensed cost to the Board of Directors.

Remuneration to the Board of Directors	**2010**	**2009**
Knut Åm - Nomination Committee (2010), Chairman & Nomination Committee (2009)	15 000	160 000
Rolf E. Ahlqvist - Chairman, Nom. Committee, Audit Committee (2010), Nom. Committee (2009)	315 000	15 000
Bjørge Gretland - Director*	150 000	-
Kristine Holm - Director	150 000	100 000
Christian Bull Eriksson - Director	150 000	100 000
Kristijane Cook Bulukin - Director	-	100 000
Tone Kvåle - Director, Audit Committee	200 000	-
Geir Worum - Director	-	100 000
Rolf Norås Pettersen - Nomination Committee	-	10 000
Marcus Hansson - Nomination Committee**	25 000	-
Total remuneration	1 005 000	585 000

* As of 04.10.2010 Board member Bjørge Gretland resigned.

** At an Extraordinary General Meeting on 01.12.2010 Marcus Hansson was elected as a new Board member

Auditors fee	**2010**	**2009**
Audit fees	322 300	260 960
Assurance services	25 600	32 805
Other assistance	19 070	26 100
Total*	366 970	319 865

All fees excluding VAT.

*All services in 2009 and 2010 are recognised as expenses.

Employee options

In 3Q 2009 a new option program was established replacing options granted in 2006 and 2007. All employees in Badger Explorer ASA have been allocated options. Manager Quality, Risk and Supply Chain was allocated 25 000 shares on employment 01.06.2010. Outstanding options of 31.12.2010 were 407 250. Fair value of the options is calculated at the time of grant and will be recognized over the corresponding vesting period of the options. One third of the option can be exercised after one year, a third of the option can be exercised after two years and a third can be exercised after three years. The exercise of options can be postponed but not past the contractual life of 3.2 years. No options were exercised during 2010.

Note 6 Salaries, other benefits, number of employees (continues)

(All figures in NOK)

	2010		**2009**	
Summary of outstanding options:	**Share options exercise price**	**Weighted average**	**Share options exercise price**	**Weighted average**
Outstanding options 01.01	406 750	10,00	76 000	23,68
Granted options	25 000	15,00	406 750	10,00
Exercised options	-	-	-	-
Forfeited	-24 500	10,00	-76 000	23,68
Expired options	-	-	-	-
Outstanding options 31.12	407 250	10,31	406 750	10,00
Vested options	135 747	10,31	-	-
Weighted Average Fair Value of options granted during the period	25 000	9,81	406 750	6,48
Charged against the Income statement:	1 339 658		683 758	
Charged against the Income Statement, Employers' national insurance contribution:	594 902		103 726	

Fair value of the options is estimated based on the Black and Scholes option pricing model.

The calculation are based on the following assumptions:

The weighted average fair value of the options granted during the period is set to NOK 12,20 for options with strike price of 10 and to NOK 19,00 for options with strike price of 15. The weighted average expected volatility is set to 93,52% (83,67 - 100,63%). Expected share dividend is set to 0. The weighted average risk free interest rate is set to 2,97% (1,95% - 3,18%). The options' weighted average expected lifetime is 2,49 years (0,8 - 3,2 years). Employers' national insurance contribution is deposited. The options were "in the money" per 31.12.2010.

The Board of Directors holds an authorisation to issue shares in the Company resolved by the Annual General Meeting of the Company held on 21.04.2010. The authorisation is provided until 30.06.2011 in respect of increase in the Company's share capital with up to NOK 116.429 by way of issuance of up to 931 432 shares in connection with the Company's share incentive scheme.

Implemented remuneration policy for members of Management for 2010

The statement's main principle regarding the remuneration policy of members of the Company's Management was to offer competitive terms in an overall perspective, taking into account the base salary, payments in kind as well as bonuses and pension plans to avoid substantial turnover in the Management. The Company should offer salary levels that reflected the average salary levels in comparable Norwegian companies.

The determination of salaries and additional benefits of the Company's Management for 2010 was based on the above noted main principle and is further detailed as follows:

On 15 September 2009 a new share option program for all employees was established. Out of a total of 407 250 allocated share options the Company's Management has been allocated 275 000 share options, equaling 67.5% of all allocated share options, which may be exercised within 15.11.2012.

Note 6 Salaries, other benefits, number of employees (continues)

(All figures in NOK)

The base salaries for each member of the Company's Management have been competitive and based on the individual's experience, responsibilities and the achieved results. Salaries as well as other benefits underwent an annual adjustment.

Members of Management were included in the general pension scheme established by the Company for all employees. The scheme is deposit based maximized to a percentage of 12G. The retirement age in the Company is 67 years. Upon termination of employment by the Company the CEO is entitled to three months severance pay.

The Company has not implemented any form of variable compensation or special benefits other than the above mentioned arrangement.

The compensation of the Company's Management for 2010 was in line with the rules for the fiscal year 2010 as approved by the Annual General Meeting on 21 April 2010.

Guidelines for 2011

The main principle of the Company's remuneration policy of the Company's Management is to offer competitive terms in an overall perspective, taking into account salary, payments in kind as well as bonuses and pension plans to avoid substantial turnover in Management. The Company shall offer salary levels that reflect the average salary levels in comparable Norwegian companies.

The determination of salaries and additional benefits of the Company's Management for the fiscal year 2011 shall be based on the above noted main principle.

As a guideline the fixed salary for each member of the Company's Management shall be competitive and based on the individual's experience, responsibilities as well as the achieved results. Salaries as well as other benefits shall be annual adjusted.

In addition to their base salary the Company's Management may be granted additional remuneration (bonus). If a bonus scheme is implemented the assessment criteria will be divided into parts where one part will be based on the Company's performance and the other part will be based on the individual performance. The targets to be reached by the CEO are to be determined by the Company's Board of Directors. The CEO decides on the relevant targets for the other members of Management based on principles defined by BXPL's Board of Directors.

The Company's Management will receive payment in kind such as paid newspaper subscriptions, cell phone expenses and payment of IT and telecommunication expenses.

On 15 September 2009 a new share option program for all employees was established. Out of a total of 407 250 allocated share options the Company's Management has been allocated 275 000 share options equaling 67.5% of all allocated share options. The options can be exercised within 36 months as of September 2009 (29 months for the Manager Quality, Risk and Supply Chain) and can be exercised only in tranches, at the earliest 12 months subsequent to the time of issue and thereafter at up to 4 occasions during each year, between 3 and 10 days after presentation of the Company's quarterly results. Each option entitles the holder the right to purchase one share at a strike price of NOK 10.00 respectively NOK 15.00 (applicable for the 25,000 share options granted the Manager Quality, Risk and Supply Chain). Upon exercise of the options, the option holder shall pay to the Company a price of NOK 10.00 per option share. If on the exercise day the market price of the BXPL shares is exceeding NOK 50 the exercise price shall be increased by an amount equivalent to 8% of the marked price deducting NOK 50.

All members of the Company's Management are included in the defined contribution pension scheme established by BXPL for all its employees. The scheme is deposit based and maximized to a percentage of 12G. The retirement age for all employees including the Company's Management is 67 years.

The CEO is entitled to three months severance pay in case of termination of employment by the Company after a notice period of three months.

The Board of Directors of Badger Explorer ASA has prepared this statement in accordance with the Public Limited Liability Companies Act §6-16a and it will present it to the Annual General Meeting on 27 April 2011 for approval.

Note 7 Tangible fixed assets

(All figures in NOK)

Badger Explorer ASA	**Property, plant & equipment**	**Total 2010**	**Total 2009**
Cost price 01.01	4 010 804	**4 010 804**	**3 446 962**
Additions	485 972	**485 972**	**563 842**
Cost price 31.12	4 496 776	**4 496 776**	**4 010 804**
Accumulated depreciations 31.12	-3 277 445	**-3 277 445**	**-2 454 546**
Booked value 31.12.	1 219 330	**1 219 330**	**1 556 258**

Depreciations	-822 900	-802 362
Depreciation rate %:	20% - 33%	20% - 33%
Economic life (years):	3 - 5	3 - 5
Depreciation method:	straight line	straight line

The depreciation period and method are assessed each year to ensure that the method and period used harmonize with the financial realities of the non-current asset. The same applies to the scrap value.

The Company has entered into operating leases for offices and other equipment. The cost is as follows:

Operating leasing cost	**Total 2010**	**Total 2009**
Operational leasing cost	83 703	95 571
Car leasing cost	83 859	105 472
Rent cost on buildings	2 257 219	2 140 020
Total	**2 424 781**	**2 341 063**

The future minimum rents related to non-cancellable leases fall due as follows for the Company:	**Within 1 year**	**2-5 years**	**After 5 years**
Operational leasing cost	40 844	-	-
Car leasing cost	7 220	-	-
Rent cost on buildings	2 186 137	2 845 001	-
Total	2 234 201	2 845 001	-

The lease agreement for the main office (headquarter) has been entered into for a period of 5 years. This agreement expires on 31.05.2013 and includes an option to extend the agreement for 5 years with the same conditions. A lease agreement for additional office and workshop has been entered into for a period of 1/2 year and expires on 30.06.2011. A lease agreement for 2 copy machines has been entered into for a period of 3 years and expires on 30.06.2011.

Note 8 Inventories

(All figures in NOK)

	2010	2009
Finished goods	17 210	48 591
Total	17 210	48 591

All inventories are valued at cost. No write-down for obsoleteness.

Note 9 Intangible assets

(All figures in NOK)

The Company has recognised the following intangible assets in the balance sheet (including internal built up assets such as development costs).

2010	**Patents***	**Development costs**	**Total**
Cost price 01.01	400 000	58 111 038	**58 511 038**
Additions		26 950 197	**26 950 197**
Public grants		-1 805 110	**-1 805 110**
Cost price 31.12	400 000	83 256 126	**83 656 126**
Accumulated depreciations 31.12	13 332		**13 332**
Booked value 31.12.	**386 668**	**83 256 126**	**83 642 794**
2009			
Cost price 01.01	400 000	29 694 515	**30 094 515**
Additions		30 393 527	**30 393 527**
Public grants		-1 977 003	**-1 977 003**
Cost price 31.12	400 000	58 111 038	**58 511 038**
Accumulated depreciations 31.12	13 332		**13 332**
Booked value 31.12.	**386 668**	**58 111 038**	**58 497 706**

	2010	**2009**
Depreciation	-	-

* The patent applies to the Badger Explorer technology and has a validity of 20 years from date it was granted. The Development costs applies to the development of the Badger Explorer technology in Badger Explorer ASA and the Plasma Channel Drilling technology in Badger Plasma Technology AS. Goodwill applies to the 50% acquisition of Calidus Engineering Ltd. Depreciation will commence when the technology is ready for its intended use.

Note 10 Accounts receivables

(All figures in NOK)

	2010	**2009**
Accounts receivables	2 180 484	2 052 201
Skattefunn & RCN receivables	1 805 108	1 977 001
Other receivables	1 099 563	1 137 620
Total	**5 085 155**	**5 166 822**

There is no provision for losses on receivables. Other receivables are mainly related to government grants and prepaid expenses.

For age distribution of accounts receivables see note 15.

Note 11 Cash and cash equivalents

(All figures in NOK)

	2010	**2009**
Cash at bank	40 782 968	99 360 907
Restricted bank deposits	894 985	983 692

Note 12 Share capital, share premium account, numbers of shares, shareholders etc.

(All figures in NOK)

Number of shares	**2010**	**2009**
01.01.	18 439 040	18 439 040
Split of share	-	-
Capital increase	-	-
31.12.	18 439 040	18 439 040

Nominal value per share is NOK 0,125.

Note 12 Share capital, share premium account, numbers of shares, shareholders etc. (continues)

(All figures in NOK)

As of 31.12.2010, the 20 largest shareholders were:	No. of shares	% share
CONVEXA CAPITAL IV AS	3 200 780	17,4 %
STATE STREET BANK AND TRUST CO.	2 699 997	14,6 %
BANK OF NEW YORK MELLON SA/NV	922 224	5,0 %
ODIN OFFSHORE	800 000	4,3 %
BANK OF NEW YORK MELLON SA/NV	738 021	4,0 %
HOLBERG NORDEN	603 234	3,3 %
IRIS-FORSKNINGSINVEST AS	589 122	3,2 %
SIX SIS AG 25PCT	532 367	2,9 %
AHLQVIST INVEST AS	465 407	2,5 %
BANK OF NEW YORK MELLON (LUX) S.A.	342 373	1,9 %
DALVIN RÅDGIVNING AS	301 872	1,6 %
ANØY INVEST DA	248 800	1,3 %
KNUT ÅM	242 600	1,3 %
HOLBERG NORGE	236 866	1,3 %
KJELL ERIK DREVDAL	222 600	1,2 %
CSV II AS	214 000	1,2 %
MP PENSJON PK	213 200	1,2 %
NILSHOLMEN INVESTERING AS	209 222	1,1 %
SIGMUND STOKKA	204 440	1,1 %
THE NORTHERN TRUST CO.	200 000	1,1 %
20 largest shareholders	13 187 125	71,5 %
841 other shareholders	5 251 915	28,5 %
Total of 861 shareholders	**18 439 040**	**100,0 %**

All shares have equal voting rights.

The Board of Directors holds two authorisations to issue shares in the Company resolved by the Annual General Meeting of 21.04.2010. These authorisations are valid for the period until the next annual general meeting to be held in 2011, with expiry date 30 June 2011. The first authorization is provided for increasing the Company's share capital with up to NOK 225 488 by way of issuance of up to 1 803 904 shares in connection with the issuance of shares to existing shareholders and new investors for a cash deposit or cash contributions and mergers. The second authorization is provided for increasing the Company's share capital with up to NOK 116 429 by way of issuance of up to 931 432 shares in connection with the issuance of shares to employees, directors and others connected with the Company as part of the Company's share incentive scheme and the share issue against payment in other cash payment (contribution).

Note 13 Related-party transactions (continues)

(All figures in NOK)

Transactions with shareholders	2010	2009
Accounts payable*	0	310 530
Purchased services*	4 255 343	7 984 565

*The Company has purchased engineering- and production services from Calidus Engineering Ltd. in which Badger Explorer ASA owns 50% and Nigel Halladay owns 50% of the shares. Nigel Halladay also owns 43 000 shares in Badger Explorer ASA.

All purchased services from Calidus Engineering Ltd. in 2010 are related to the development project.

At the Extraordinary General Meeting on 1 December 2010 the General Meeting provided the Board of Directors with a proxy to enter into agreements with close associates for the period as of 1 December 2010 until 31 December 2011. The remuneration shall be limited to NOK 1,500 per hour and time schedule and detailed specifications of duties shall be approved by the Company's Board of Directors prior to entering of such agreements. Badger Explorer ASA has not entered into such agreements with close associates as of 31.12.2010.

Shares held by members of the Board of Directors and	2010	2009
Convexa Capital IV AS (Director - Bjørge Gretland)*	3 200 780	3 200 780
SIX SIS AG 25PCT (Director - Marcus Hansson)	500 000	500 000
Ahlqvist Invest AS (Chairman - Rolf E. Ahlqvist)	465 407	465 407
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	301 872	301 872
CEO - Kjell Erik Drevdal	222 600	222 600
Convexa AS (Director - Bjørge Gretland)	-	100 000
Nilsholmen Investering AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	209 222	-
J.P. Morgan Bank Luxembourg S.A (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	-	149 222
SEB Private Bank S.A. Luxembourg (Director - Marcus Hansson)	65 000	65 000
Nilsholmen AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	20 200	80 200
Invest OK AS (Director - Kristine Holm)	15 000	15 000
Director - Marcus Hansson	11 668	-
5K International (CEO - Kjell Erik Drevdal)	10 000	10 000
Chevni AS (Director - Christian Bull Eriksson)	6 000	6 000
CFO - Gunnar Dolven	5 000	-
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	1 000	1 000
Ordinary shares	**5 043 707**	**5 127 039**
% of total shares	27,4 %	27,8 %

* As of 04.10.2010 Bjørge Gretland resigned as Board Director

Note 14 Conditional commitments

(All figures in NOK)

Contribution recognised in the balance sheet

The Company has received contributions from the partners amounting to NOK 12 960 000 whereas NOK 8 800 000 were received prior to 2010. These contributions shall be repaid to the partners by paying 5% royalty of all technology related sales in the future. This royalty is limited to a total of 150% of received contribution. The contributions have not been recognised as income.

Note 15 Financial risk and Financial assets

(All figures in NOK)

Foreign currency risk

The Company has a very limited number of transactions in foreign currency which consequently gives a very low currency risk. All of the Company's cash and financial instruments are in NOK and thus no foreign exchange risk inures.

Interest rate risk

The Company does not have any interest-bearing debt. The Company has MNOK 1.3 in net financial income as of 31.12.2010. 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 this interest risk is considered to be low.

Market risk

The Company has invested 53.9 million in First Norway Alpha KL IV-IA, 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 value of the shares are monitored on a daily basis. The shares are not under any contractual obligation unless for 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 recognised, 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. The maximum exposure as of 31.12.2010 is MNOK 2.2, the carrying amount of accounts receivables. All cash in the Company is deposited in Norwegian banks which are considered to be a risk reducing initiative.

Liquidity risk

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

Capital management

Capital includes equity.

The primary focus of the Company's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximize shareholders value.

The Company manages its capital structure and makes adjustments to it, in light of changes in the economic conditions. To maintain or adjust the capital structure the Company may issue new shares. No changes were made in the objectives, policies or processes during 2010.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Since the Company does not have any interest bearing loans; the gearing ratio is negative for both 2009 and 2010.

The Company includes within net debt, trade and other payables, less cash and cash equivalents.

Note 15 Financial risk and Financial assets (continues)

(All figures in NOK)

	2010	2009
Interest bearing loans and borrowings	0	0
Trade and other payables	7 036 449	5 164 766
Less cash and short-term deposits	-93 398 501	-99 360 907
Net debt	**-86 362 052**	**-94 196 141**
Equity	175 276 061	196 276 655
Total capital	**175 276 061**	**196 276 655**
Capital and net debt	**88 914 009**	**102 080 514**
Gearing ratio	-97%	-92%

Fair value

The fair value of financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

- Fair value of bank bonds is based on price quotations as of 31.12
- Fair value of investment in shares in market based liquidity fund is based on price quotations as of 31.12
- Fair value of cash and cash equivalent are assessed to carrying amount

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments.

	2010		2009	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Bank bonds held to maturity	0	0	33 781 615	34 091 000
Investment in shares in liquidity fund at fair value through profit and loss	52 615 534	52 615 534	0	0
Cash and cash equivalents	40 782 968	40 782 968	99 360 907	99 360 907
Current receivables	5 085 155	5 085 155	5 166 822	5 166 822
Trade and other payables	7 036 449	7 036 449	5 164 766	5 164 766

Fair value hierarchy

As at 31.12.2010, the Group held the following financial instruments carried at fair value on the statement of financial positions. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets of liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Note 15 Financial risk and Financial assets (continues)

(All figures in NOK)

Assets measured at fair value	2010	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
- Investment in shares in liquidity fund	52 615 534	52 615 534		

Age distribution of receivable

AS at 31 December, the ageing analysis of receivables is as follows:

	Total	Neither past due nor impaired	Loss receivables
2010	5 085 155	5 085 155	8 323
2009	5 166 822	5 166 822	0

	Past due but not impaired			
	<30 days	30-60 days	60-90 days	>90 days
2010	0	0	0	0
2009	0	0	0	0

Financial assets

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 08.01.10	54 045	60 000 000	1 105	59 701 493
Sale of shares**	-5 513	-6 120 531	1 088	-6 000 000
Shares 31.12.10	48 532	53 879 469	1 084	52 615 534

*Subscription price per share: 1110

**A loss of NOK 120 531 was realized in connection with sale of financial assets (see note 3).

	2010	2009
Interest income from bank bonds. All bank bonds were sold in 2010.	16 363	2 280 783

Badger Plasma Technology AS

Badger Plasma Technology AS is a private limited company registered in Norway and has its head office located at Jåttåvågveien 7 - Building C, 4020 Stavanger, Norway. Badger Plasma Technology AS was established on the 05.03.2007 in order to increase focus and activity level of the development and commercialisation of the Plasma Channel Drilling technology. All historic investments, public grants and capitalised grants related to the Plasma Channel Drilling (PCD) project and related administration costs have been transferred from Badger Explorer ASA to Badger Plasma Technology AS and are recognized on the accounts receivables in Badger Explorer ASA's Statement of Financial Position and on the accounts payable in Badger Plasma Technology AS's Statement of Financial Position. The activity level in Badger Plasma Technology AS has been low during 2009 due to high focus on the Badger Explorer project.

Note 16 Subsidiaries

(All figures in NOK)

Transfer of investments, public grants and capitalised grants to Badger Plasma Technology AS	
Transfers as of 01.01.2009	2 180 165
Payment of historic development costs, PCD	-144 606
Transfer of development costs, PCD	324
Transfers as of 31.12.2009	2 035 882
Payment of historic development costs, PCD	-324
Transfers as of 31.12.2010	2 035 558

Transactions with Badger Plasma Technology AS	2010	2009
Accounts receivable (including transfers)	-2 035 558	-2 035 882
Purchased services	1 630	916
Sold Services	259	434 750

Equity and Net profit (loss) Badger Plasma Technology AS	2010	2009
Equity 31.12	2 085 907	2 058 332
Net profit (loss)	27 576	-128 195
Carrying among of shares as of 31.12	3 000 000	3 000 000

Badger Explorer ASA owns 100% of the shares in Badger Plasma Technology AS. All shares have equal voting rights.

Calidus Engineering Ltd.

At the end of November 2007, Badger Explorer ASA acquired 50% of the shares in Calidus Engineering Ltd., a UK based engineering company. Calidus Engineering Ltd. is a private limited company registered in UK and has its office located at Unit 7A, Tregoniggie Industrial Estate, Falmouth, Cornwall TR11 4SN, UK. The parties have agreed upon an acquisition model in which Badger Explorer ASA gradually will acquire 100% of Calidus Engineering Ltd. until 2013. Badger Explorer ASA has initially acquire 50% of Calidus Engineering Ltd. through a combined purchase of outstanding shares and a share issue. In 2011 Calidus Engineering will sell additional 25% of its shares to Badger Explorer ASA. The concept for the price per share is pre-defined in the shareholder agreement. In 2013 Calidus Engineering Ltd. has the right to sell the remaining 25% of its shares to Badger

All shares in Calidus Engineering Ltd. have equal voting rights.

Transactions with Calidus Engineering Ltd.	2010	2009
Accounts payable	-	310 530
Purchased services	4 255 343	7 984 565

Equity and Net profit (loss) Calidus Engineering Ltd.	2010	2009
Equity 31.12	10 931 643	8 403 056
Currency translation	286 732	648 970
Net profit (loss)	2 815 320	3 144 107
Carrying among of shares as of 31.12	8 909 521	8 909 521

Auditor's report

ERNST & YOUNG

Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of Badger Explorer ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Badger Explorer ASA, comprising the financial statements for the Parent Company and the Group. The financial statements for the Parent Company and the Group comprise the statement of financial position as at 31 December 2010, the statements of income and comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Chief Executive Officer's responsibility for the financial statements

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion

In our opinion, the financial statements of Badger Explorer ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Parent

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Company and the Group as of 31 December 2010 and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

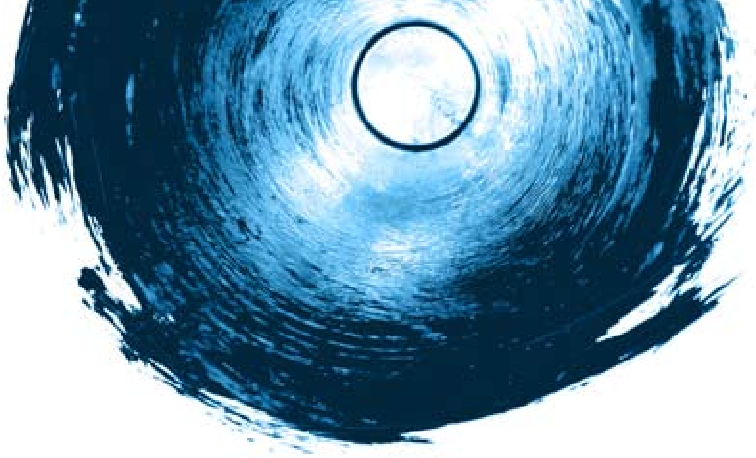
Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the international standard on assurance engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Stavanger, 30 March 2011
ERNST & YOUNG AS

Tommy Lothe
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)



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