BADGER
EXPLORER

Quarterly Report 3Q 2012

FOCUSED MANAGEMENT AND ACCELERATED TECHNICAL PROGRESS 3Q 2012

The approval of Milestone 1 of the Badger Demonstrator Program in August 2012 triggered the release of MNOK 6 in sponsorship funding, which was transferred to Badger Explorer ASA (BXPL) in September.

The Badger Demonstrator Program 2012-2014 consists of six milestones. To increase the time available for reliability engineering and development of system operational experience, timing of several milestones has been brought forward, and a Beta Version of the Badger tool is scheduled for testing by mid-2013. These changes are designed to increase the overall probability of success, and accelerate the development timing, noting that the Program is now ahead of the original schedule.

In the third quarter, a comprehensive and structured technical evaluation was launched, making use of third party experts and including expertise from our sponsors, in order to identify and prioritize the further reduction of residual technology risk and to accelerate the further development work. Focus areas have been highlighted and resource requirements better defined. This exercise will improve the robustness of the Demonstrator Program and help prepare for the first commercial Badger tool.

Negotiations with new sponsors and an appropriate strategic partner continue to make progress.

Changes have been implemented at Calidus Engineering Ltd. to strengthen the company and to assure the support required for the Badger project. Chief amongst these was the appointment of Brian Green as managing director at Calidus with effect from 9th October 2012. Brian has worked in the petroleum industry for 35 years, with significant experience in subsea service and equipment. His track record includes achieving significant growth in a number of small companies.

Badger Group cash management continues to be a priority. Cash reserves per 30th September 2012 are MNOK 25.1; the same level as at the end of 2Q 2012.

Accelerated Technical Progress and Reduction of Technology Risk Through 2012

The accelerated Badger Demonstrator Program plan aims at developing and building the first Badger Explorer tool, to be deployed in a Field Pilot in early 2015. Further risk reducing efforts have been achieved as follows:

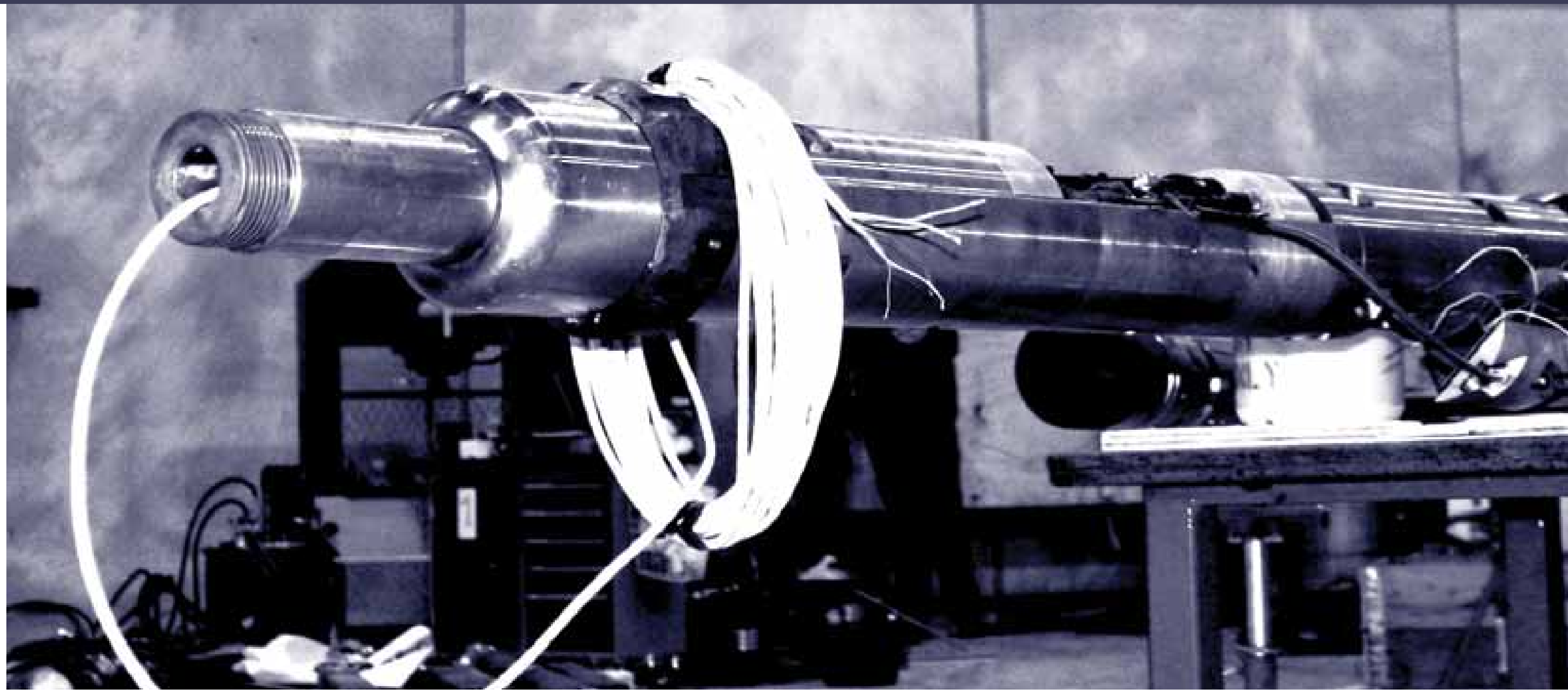
- Modification of the existing Badger Explorer Demonstrator Program to incorporate a Beta version of the tool by mid-2013.
- The significant challenge of the Separation System was addressed by devising a new transport mechanism incorporating a piston pump, effectively eliminating the problem of separation.
- The principle of operation of the Compaction System was improved to incorporate plugs built using an engineered Particle Size Distribution (PSD). Implementation of this principle includes testing high speed drilling in order to generate cuttings that give lower permeability and better compactability.
- Reliance on the availability of clean water for circulation has also been eliminated. As well as increasing the robustness of the design, this enables a means to traverse gas zones, where substantial amounts of liquid are unlikely to be available.
- The critical issue of wellbore stability has been mitigated by applying the established principles of Dual-Tube Reverse-Circulation (DTRC) drilling, which appears to be a close analog to the Badger operational conditions. Support for unconsolidated formations is provided by the tool body, and the entire circulation and return path is internal to the tool.
- A means has been devised to quantify Apparent Compaction (the cumulative effects of direct compaction of cuttings and the ability to force slurry into the formation), and this testing effort is under way.
- High Temperature motor development has been bypassed by selection of a commercial frameless motor, eliminating the need for a custom-built prototype.
- Testing and quantification of the flow capabilities of drill cuttings with low fluid content is ongoing.

The contribution of Calidus Engineering Ltd is vital to the ongoing development work. Calidus conducts development work on the Hydraulic Power Unit (HPU), the Local Control Unit (LCU), the cable storage solutions and Badger field joint solutions.

In light of the recent improvements in tool design, including the elimination of certain challenges (such as separation of solids to ensure clean water), it is time to conduct a structured review in detail of the residual technology risks, and ensure that the highest-risk activities are prioritized. In the course of this exercise, we have made use of expert input from both third parties and from within our sponsor expertise base.

Sponsors of the Badger Demonstrator Program

The Badger Demonstrator Program includes six concrete milestones and funds are released upon successful completion of Milestones 1, 3 and 6. ExxonMobil and Statoil have been sponsors since 2005.



BXPL's plan is to add 2-3 new sponsors, and specific discussion is under way with further operating companies. New sponsors will be asked to contribute a catch-up amount of 50% to gain parity with the original sponsors. Ongoing discussions with potential new sponsors have gained momentum, and related technical due diligence has taken place. Negotiations have reached such an advanced stage that signing by at least one new sponsor is expected to take place in the near future. Signing up each new sponsor will release a total amount of MNOK 13.5 to the program, of which sign-on and Milestone 1 payments comprise MNOK 7.2.

The Field Pilot Program

The target for the first commercial Badger Explorer service is a shallow onshore application. A feasibility study focused on the oil sands in Canada, completed during 1Q 2012, confirms the viability of the proposed service; an environmental application including long-term monitoring of formation water salinity and subsurface heave.

Efforts are continuing to pursue a contractual basis for this field pilot, but due to procedural issues relating to the placing of commercial orders for technology still under development, it is unrealistic to expect a formal contract before next year. The focus is now on bridging the gap between our current position and the technical readiness level that an oilfield asset will require in order to issue a commercial Purchase Order.

The overall program includes at present five individual Field Pilot Projects (FPPs), each of which aims to establish the basis for subsequent related commercial services of increasing complexity. FPP1 establishes the viability of oil sands environmental monitoring commercial services, a market considered to be large and where we see certain benefits to the customers in using Badger services.

The funding of the FPP1 will consist of a Purchase Order at market price from a concrete oil field license plus a public grant of MNOK 8 from the Research Council of Norway (RCN). The RCN grant was obtained 4Q 2011.

- FPP1 is scheduled for deployment during early 2015, with commercial deliveries shortly thereafter.
- FPP2 targets Onshore Exploration Services, i.e. formation evaluation in unexplored areas, and is planned to be released in second half of 2015. In the first phase, most likely the market will be Canada, as the data acquired will be validated based on local geology, and the equipment needed will be very similar in specification to FPP1.
- FPP3 will follow in 2016 and comprise offshore exploration data and surveillance, and will open the door for Badger commercial offshore services.
- FPP4, planned for 2017, will establish subsea type operations and will introduce advanced offshore services.
- Finally, FPP5 will be launched 2019, enabling the Badger technology to access the high value exploration markets.

The development plan is challenging, and it will be necessary for us to maintain a strong focus on the core technical and commercial issues.

Strategic Industrial Alliance
Development time, development cost and market introduction are critical. Badger Explorer ASA considers a strategic industrial alliance to be something that could accelerate time to market and provide additional capabilities that strengthen the Company through the period of the current business plan.

Negotiations with a potential strategic partner appear to be heading toward a conclusion.

CALIDUS ENGINEERING LTD., UK (75 % OWNED SUBSIDIARY)

Calidus Engineering Ltd. (Calidus) is a multi-discipline engineering company specialized in designing down-hole equipment for harsh environments. In addition to modeling and engineering design services, Calidus runs a prototype based machine shop. Revenue comes from clients within the petroleum and geothermal industries, as well as from traditional R&D business.

Calidus has been a key supplier to Badger for a number of years. Deliveries to BXPL amounted to MNOK 2.9 as of 30th September 2012 (representing 29.6% of gross turnover) compared to MNOK 2.1 for the same period in the prior year (22.0%).
Calidus' turnover as of 30th September 2012 was MNOK 9.7 compared to MNOK 9.6 for the same period in 2011.
The net result before tax (EBT) was MNOK -2.6, compared to MNOK -0.9 the prior year. Calidus' equity ratio is 37.0%, compared to 41.4% in 2011.

The Badger Board stated in the 1H 2012 report that the financial performance of Calidus has been disappointing, and action has since been taken to improve the situation. Brian Green was appointed Managing Director of Calidus as of 9th October 2012. Steps have been taken to improve capacity and to secure ongoing business volume, emphasizing deliveries to the Badger Demonstrator Program and strengthening the down-hole camera product line. The aim of these efforts is to increase business volume with oil service customers, particularly in Norway and in the UK.

FINANCIALS AND INVESTOR RELATIONS

As of 30th September 2012, the Badger Explorer Group had a net equity of MNOK 131.4 (equity ratio of 76.4%) compared to MNOK 154.2 as of 30th September 2011 (79.9%).

Investor Relations Issues
Badger Explorer ASA has 858 shareholders as of 30th September 2012. Norwegian entities and individuals hold 64.8% of the total number of outstanding shares and the 20 largest shareholders hold 69.6% of the outstanding shares.

BADGER EXPLORER GROUP

The Badger Explorer Group operations consists of more than 40 people, including skilled Calidus engineers and dedicated specialists with sub-vendors and various research institutes. The core staff of Badger Explorer ASA consists of 15 employees.

BOARD OF DIRECTORS

John R. Wilson resigned from the Board of Directors of Badger Explorer ASA as of 8th October 2012.

MAIN FIGURES

Revenues for 3Q 2012 amounted to kNOK 1,561 and to kNOK 7,158 per 30th September 2012, compared to kNOK 1,850 for 3Q 2011 and kNOK 7,837 as of 30th September 2011.

Operating expenses for 3Q 2012 amounted to kNOK 6,480 and to kNOK 21,719 per 30th September 2012, compared to kNOK 10,867 for 3Q 2011 and kNOK 28,457 as of 30th September 2011.

EBITDA for 3Q 2012 amounted to kNOK -4,919 and to kNOK -14,561 per 30th September 2012, compared to kNOK -9,017 for 3Q 2011 and kNOK -20,620 as of 30th September 2011.

Total development costs for the Badger Explorer Prototype project amounted to kNOK 4,836 of which kNOK 4,050 was capitalized for 3Q 2012 and amounted to kNOK 13,036 of which kNOK 11,025 was capitalized per 30th September 2012.

Calculated receivable public grants YTD 2012 for the Badger Explorer project amount to kNOK 2,223 for 3Q 2012 and amount to kNOK 2,944 per 30th September 2012. All public grants are capitalized together with the project costs.

Earnings per share amounted to NOK -0.29 per share for 3Q 2012 and amounted to NOK -0.83 per share per 30th September 2012.

Cash reserves per 30th September 2012 are MNOK 25.1, i.e. at the same level as of June 2012.

Cash management continues to be a priority:

- A new overdraft facility has been established;
- The Company's approved tax declaration for 2011 was issued in early October. Badger Explorer ASA is due a tax refund of MNOK 2.1, which includes "Skattefunn"; an R&D grant via the tax regime in Norway;
- Grants totaling MNOK 28 have been awarded by Innovation Norway and the Research Council of Norway;
- Advanced discussions are under way with new sponsors and a potential strategic partner;
- An asset sale remains an option, if deemed advantageous.

	Quarters			Year to date	
CONSOLIDATED SUMMARY (Unaudited figures in NOK 1000)	**3Q 2012**	2Q 2012	3Q 2011	**30.09.2012**	30.09.2011
Revenues	1 561	1 987	1 850	7 158	7 837
Operating expenses	6 480	7 670	10 867	21 719	28 457
EBITDA	-4 919	-5 683	-9 017	-14 561	-20 620
Earnings per share (figures in NOK)	-0,29	-0,30	-0,47	-0,83	-1,12
Projects development costs	4 836	3 954	7 493	13 036	23 072
Public grants for projects dev.	2 223	-831	935	2 944	2 558
Cap. of dev. costs and public grants	1 827	4 230	5 941	8 081	18 270

OUTLOOK

New sponsors and an appropriate strategic industrial partner will strengthen the Company's funding and accelerate technology development.

Renewed focus at Calidus will also contribute to the development of the Badger tool.

The ongoing structured technical evaluation maintains the recent focus on reduction of technology risk, providing an improved platform from which to move to the commercial phase.

Stavanger, 24th October 2012
The Board of Directors
Badger Explorer ASA

ACCOUNTING POLICIES

Badger Explorer ASA is a public limited company registered in Norway and listed on the Oslo Stock Exchange (Oslo Axess list). The Company's head office is located at Forusskogen 1, 4033 Stavanger, Norway.

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

The financial statement has been prepared on an historical cost basis, except for investment in shares in liquidity fund which is held to fair value over profit and loss.

The Group's consolidated financial statement comprises the financial statement of Badger Explorer ASA (100%), Badger Plasma Technology as (100%) and Calidus Engineering Ltd. (75%).

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group 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 interest represent the portions of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

The interim financial statement do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the financial statements as at 31.12.2011.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31.12.2011.

The Group's consolidated financial statements are presented in NOK. Income statements in foreign subsidiaries are translated into NOK using the average exchange rate for the period (month). Assets and liabilities in foreign subsidiaries, including goodwill and adjustments of fair value of identifiable assets and liabilities arising on the acquisition of subsidiaries are translated into NOK using exchange rate at the balance sheet date. The exchange differences arising from the translation are recognised directly as other comprehensive income in equity.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivates designated as hedging instruments in an effective hedge, as appropriate.
Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs are added.
Financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivate financial instruments.

Inventories are valued at the lower of cost and net realisable value.

Cash includes cash in hand and at bank.

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

Fixed assets are carried at cost less accumulated depreciations and impairment losses.

The gross carrying amount of fixed assets is the purchase price, including duties/taxes and direct acquisition costs relating to making the asset ready for use.

Depreciation is calculated using the straight-line method.

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

Development expenditures related to the Badger Explorer development project and the Badger Plasma Technology project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The Group's intention to complete and the Group's ability to use or sell the asset.
- How the asset will generate future economic benefits.
- The ability to measure reliable the expenditure during development.
- The availability of resources to complete the assets.

When all the above criteria are met, the cost relating to development start to be recognized in the balance sheet.

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

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Revenue is recognised to the extent when it is probable that the economic benefit will flow to the Group and the revenue can be reliability measured, regardless of when the payment is being made.

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

Public grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grants relate to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the cost it intends to compensate. Where the costs are related to a development project and capitalised, the belonging grants are deducting the carrying amount of the asset.

Contributions from partners are recognised in the balance sheet as long term liabilities as the contributions are subject to repayment. Ref. note 14 in the annual accounts.

During Q3 2009 an option program for all employees were introduced. The options entitle the employees to purchase shares at a predetermined price during a 3.2 year period until 15.11.2012. This is an equity based option program and is recognized on the P&L under personnel costs and on the balance sheet under other paid in equity. The options are recognized over the vesting period starting from 15.09.2009. The option value is based on a third party evaluation of the options at the grant date where the Black-Scholes model was used for calculation.

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

CONSOLIDATED INCOME STATEMENT

Unaudited figures in NOK 1000	Quarters				Year to date		Year end
	3Q 2012	2Q 2012	3Q 2011	Note	**30.09.2012**	30.09.2011	31.12.2011
Revenues							
Other Income	1 502	1 928	1 794	4	6 983	7 762	9 678
Public grants	2 283	-772	992	1,2	3 119	2 633	3 749
Capitalised public grants	-2 223	831	-935	1,2	-2 944	-2 558	-3 617
Total Revenues	**1 561**	**1 987**	**1 850**		**7 158**	**7 837**	**9 810**
Operating Expenses							
Cost of goods sold	887	473	696		1 981	2 008	2 463
External services for dev. project	1 692	1 734	5 288	4	4 993	14 357	19 902
Payroll and related costs	6 191	5 548	6 730		18 141	19 699	28 765
Other operating expenses	1 760	3 314	5 030		7 630	13 220	16 118
Capitalised development cost	-4 050	-3 399	-6 876	3	-11 025	-20 828	-27 986
Total Operating Expenses	**6 480**	**7 670**	**10 867**		**21 719**	**28 457**	**39 262**
EBITDA	**-4 919**	**-5 683**	**-9 017**		**-14 561**	**-20 620**	**-29 452**
Depreciation	1 006	409	448		1 837	1 094	1 471
Operating profit (loss)	**-5 925**	**-6 092**	**-9 465**		**-16 398**	**-21 715**	**-30 922**
Net financial income	85	137	510		431	689	994
Profit (loss) before taxes	**-5 840**	**-5 955**	**-8 955**		**-15 967**	**-21 026**	**-29 928**
Tax on ordinary result	-14	0	0		-14	0	372
Net profit (loss)	**-5 854**	**-5 955**	**-8 955**		**-15 981**	**-21 026**	**-29 556**
Profit (loss) attributable to non-controlling interests	-431	-337	-238		-647	-215	-321
Profit (loss) attributable to equity holders of the parent	**-5 422**	**-5 619**	**-8 717**	9	**-15 334**	**-20 811**	**-29 235**
Earnings per share	**-0,29**	**-0,30**	**-0,47**		**-0,83**	**-1,12**	**-1,58**
Earnings per share diluted	**-0,29**	**-0,30**	**-0,47**		**-0,82**	**-1,12**	**-1,56**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS Unaudited figures in NOK 1000	**30.09.2012**	30.06.2012	30.09.2011	Notes	31.12.2011
NON-CURRENT ASSETS					
Capitalised development costs	116 371	114 544	107 425	2,3,7	111 037
Patent rights	387	387	387		387
Goodwill	5 744	5 820	5 661	4	5 774
Total intangible assets	**122 501**	**120 751**	**113 473**		**117 198**
Property, plant & equipment	16 014	17 120	17 726	12	17 963
Total tangible assets	**16 014**	**17 120**	**17 726**		**17 963**
TOTAL NON-CURRENT ASSETS	138 515	137 872	131 199		135 161
CURRENT ASSETS					
Inventories	2 770	3 540	3 024		2 776
Sum Inventories	**2 770**	**3 540**	**3 024**		**2 776**
Accounts receivables	2 019	1 971	2 226	4,13	5 251
Other receivables	3 452	6 439	6 618	4,12	6 565
Total receivables	**5 471**	**8 411**	**8 844**		**11 816**
Cash and cash equivalents	**25 120**	**25 078**	**49 926**		**39 179**
TOTAL CURRENT ASSETS	33 362	37 029	61 794		53 771
TOTAL ASSETS	**171 877**	**174 901**	**192 992**		**188 932**

EQUITY AND LIABILITIES Unaudited figures in NOK 1000	**30.09.2012**	30.06.2012	30.09.2011	Notes	31.12.2011
EQUITY					
Share capital	2 317	2 317	2 316	4,5,10	2 317
Share premium fund	218 070	218 070	217 988	5	218 070
Other paid in capital	4 171	3 791	2 747	4,6	3 219
Total paid in equity	**224 558**	**224 178**	**223 050**		**223 606**
Retained earnings	-94 958	-89 384	-71 686		-79 812
Total retained earnings	**-94 958**	**-89 384**	**-71 686**		**-79 812**
Non-controlling interests	**1 807**	**2 265**	**2 831**		**2 725**
TOTAL EQUITY	131 407	137 059	154 195		146 519
LIABILITIES					
Capitalised grants	24 000	18 000	19 375	7	18 688
Interest-bearing loans and borrowings	0	0	8 336	12	8 347
Total non-current liabilities	**24 000**	**18 000**	**27 711**		**27 034**
Accounts payables	2 787	2 816	3 762	4,10	3 086
Interest-bearing loans and borrowings	9 098	9 285	0	12	0
Public duties payables	783	1 439	871		1 774
Taxes payables	-0	394	118		392
Other short term liabilities	3 802	5 907	6 335		10 127
Total current liabilities	**16 470**	**19 842**	**11 086**		**15 379**
TOTAL LIABILITIES	40 470	37 842	38 797		42 413
TOTAL EQUITY AND LIABILITIES	**171 877**	**174 901**	**192 992**		**188 932**

CONSOLIDATED STATEMENT OF CASH FLOW

Unaudited figures in NOK 1000	3Q 2012	2Q 2012	3Q 2011	Note	30.09.2012	30.09.2011	31.12.2011
	Quarters				Year to date		Year end
Contribution from operations*	-4 553	-5 349	-8 964		-13 623	-20 159	-28 147
Change in accounts receivables and accounts payables	-76	3 492	3 035	4,10	2 934	2 102	-1 599
Change in other receivables and payables	601	-3 635	-1 819		-4 589	-109	5 160
Net cash flow from operating activities	-4 028	-5 491	-7 748		-15 279	-18 166	-24 586
Investment/sales fixed assets	-70	129	-1 401	12	31	-15 178	-15 792
Investment/sales shares in liquidity fund	0	0	0		0	52 616	52 496
Additional acquisition of shares in subsidiary	0	0	0		0	-8 279	-8 279
Capitalisation of development cost	-4 050	-3 399	-6 876	3	-11 025	-20 828	-27 986
Sales of capitalised equipment	0	260	0	3	260	0	0
Reclassification of contribution from industry partner	0	0	0		2 488	0	2 488
Net cash flow from investment activities	-4 120	-3 009	-8 277		-8 247	8 330	2 926
Public grants	2 223	-831	935	1	2 944	2 558	3 617
Paid in equity	0	-0	0		0	899	982
Contribution from industry partners	6 000	1 800	1 440	7	5 312	1 440	752
Proceeds from borrowings	-186	1 239	161	12	751	8 256	8 267
Interest received	161	216	708		664	2 339	-1 766
Interest paid	-76	-79	-198		-234	-1 651	2 880
Net cash flow from financing activities	8 122	2 345	3 047		9 438	13 842	14 733
Total net changes in cash flow	**-26**	**-6 156**	**-12 978**		**-14 087**	**4 006**	**-6 927**
Net foreign translation differences	68	-134	552		28	33	218
Cash and cash equivalents beginning of period	25 078	31 368	62 352		39 179	45 888	45 888
Cash and cash equivalents end of period	**25 120**	**25 078**	**49 926**		**25 120**	**49 926**	**39 179**
Net result	-5 422	-5 619	-8 717		-15 334	-20 811	-29 235
Profit (loss) attributable to non-controlling interest	-431	-337	-238		-647	-215	-321
Employee options	380	334	53		952	461	933
Depreciation	1 006	409	448		1 837	1 094	1 471
Financial income	-161	-216	-708		-664	-2 339	-2 880
Financial expenses	76	79	198		234	1 651	1 886
***Total contribution from operations**	**-4 553**	**-5 349**	**-8 964**		**-13 623**	**-20 159**	**-28 147**

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

Unaudited figures in NOK 1000	Note	Share capital	Share premium fund	Other paid in capital	Retained earnings	Non-controlling interest	Total equity
Equity per 31.12.2011		2 317	218 070	3 219	-79 812	2 725	146 519
Total comprehensive income					-15 146	-918	-16 064
Option plan payment				952			952
Equity per 30.09.2012		**2 317**	**218 070**	**4 171**	**-94 958**	**1 807**	**131 407**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited figures in NOK 1000

	Quarters			Year to date		Year end
Total comprehensive income	3Q 2012	2Q 2012	3Q 2011	30.09.2012	30.09.2011	31.12.2011
Profit (loss) for the year (period):	-5 854	-5 955	-8 955	-15 981	-21 026	-29 556
Other comprehensive income						
Translation differences	-179	395	846	-83	54	352
Comprehensive income at end of period	**-6 033**	**-5 560**	**-8 109**	**-16 064**	**-20 972**	**-29 204**

	Quarters			Year to date		Year end
Total comprehensive income attributable to:	3Q 2012	2Q 2012	3Q 2011	30.09.2012	30.09.2011	31.12.2011
Equity holders of the parent	-5 574	-5 281	-7 871	-15 146	-20 757	-28 883
Non-controlling interest	-459	-279	-238	-918	-215	-321
Total comprehensive income	**-6 033**	**-5 560**	**-8 109**	**-16 064**	**-20 972**	**-29 204**

NOTES

1. Projects in the Badger Explorer Program are supported by the Research Council of Norway and "Skattefunn" with a percentage of the total project cost. The calculated amount is accrued consecutively. Badger Explorer ASA is supported by "Skattefunn" and RCN in 2012. Changes in project activity has affected the calculation of receivable public grants year to date. Adjustment for this has been made in 2Q and 3Q 2012.

2. The cost and the grants for the development of Badger Explorer Prototype project and Plasma Channel Drilling project are capitalised.

3. The project development costs are capitalised in accordance with the IFRS regulations. Additional project cost not capitalised this year due to the restriction in the IFRS standard for the Badger Explorer Prototype project amounts to kNOK 2011 per 30.09.2012. Sales of capitalised equipment amounts to kNOK 260.

4. The 100% owned subsidiary, Badger Plasma Technology AS and the 75% owned subsidiary, Calidus Engineering Ltd. have been consolidated with the parent company Badger Explorer ASA starting from 01.12.2007. Intercompany sales and purchases, intercompany receivables and payables, intercompany investments and share capital are eliminated.

5. The general assembly decided in meeting on 09.05.2007 to split the existing shares which gave an increase in number of shares from 6 719 520 to 13 439 040. A total of 5 000 000 additional shares were issued in connection with the IPO of NOK 160 000 000 related to the listing on Oslo Axess on 12.06.2007. On 18.03.2011 a total number of 73 249 option shares were exercised by employees and 73 249 shares were issued, on 09.06.2011 a total number of 16 666 option shares were exercised by employees and 16 666 shares were issued and on 04.11.2011 a total number of 8 333 option shares were exercised by employees and 8 333 shares were issued. The total number of shares per 30.09.2012 is 18 537 288 at par value of 0,125 per share.

6. The options granted in 2006 were during 3Q 2009 replaced with new options. The new option program was approved and effective from 15.09.2009, included all employees at the time and granted a total of 406 750 share options at a strike of NOK 10 and 25 000 share options at a strike of NOK 15. The options entitle the employees to purchase shares during a 3.2 year period until 15.11.2012. These are equity based option agreements and are recognised on the P&L under payroll and related costs and on the balance sheet under other paid in capital. The options (incl. Employers' national insurance contributions) are recognized over the vesting period starting from 15.09.2009. The option value is based on a third party evaluation of the options at the grant date where the Black-Scholes model was used for calculation. The replacement of options was treated as a cancellation and re-pricing under IFRS 2. The options at a strike of NOK 10 were "out of the money" per 30.09.2012. The option at a strike of NOK 15 were "out of the money" per 30.09.2012. A total number of 144 501 shares are forfeited. A total number of 73 249 share options were exercised in the 1Q 2011 exercise window, a total number of 16 666 share options were exercised in the 2Q 2011 exercise window and a total number of 8 333 share options were exercised in the 3Q 2011 window. A total of 98 248 share options have been exercised in total. Next exercise window will be after the presentation of this 3Q 2012 report.

   In 3Q 2011 Mr. David Blacklaw, CEO from 05.10.2011, was granted 370.579 share-options in Badger Explorer ASA at a strike price of NOK 19.00 per share. These options must be exercised three to ten days after the presentation of the 3Q 2014 report and were "out of the money" per 30.09.2012.

7. The Group has received contribution from the three industry partners amounting to a total of NOK 28 975 200 since 2005. A total of 24 000 000 of this contribution shall be repaid to the partners by paying 5% royalty of all technology related sales in the future. This royalty is limited to 150% of received contribution. A total of 4 975 200 of this contribution is capitalised as reduction of development cost.

8. Deferred tax asset has not been recognised.

9. Below table shows the segments of which the management is reporting to the Board of Directors. The segments are the main projects; Badger Explorer and Plasma Channel Drilling, engineering; Calidus Engineering Ltd. and other activities (mainly administration).

   The column "other" includes all administration support and other costs not allocated directly to any of the other segments. All office equipment and cash in the Norwegian companies are included in this segment.

30.09.2012 - Business segments Unaudited figures in NOK 1000	Badger Explorer	Badger Plasma	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	0	9 708	321	-2 871	7 158
Segment profit (loss)	-2 011	0	-1 929	-11 380	-0	-15 320
Total assets	115 446	924	28 529	33 184	-6 206	171 877

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

3Q 2012 - Business segments Unaudited figures in NOK 1000	Badger Explorer	Badger Plasma	Engineer-ing	Other	Elimin-ation	Total
Total revenue	0	0	2 783	0	-1 221	1 561
Segment profit (loss)	-786	0	-1 281	-3 342	-0	-5 409

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

10. Related party transaction

Unaudited figures in NOK 1000

Transaction with related party	30.09.2012	30.09.2011
Accounts payable*	0	13
Purchased services*	0	88

* The Company has purchased consultancy services from Norsaco in which Kjell Markman (Sr. VP Bus. Dev. & Strategy) is Chairman of the Board and owns 25% of the shares.

Transaction with shareholders	30.09.2012	30.09.2011
Accounts payable**	40	232
Purchased services**	2 767	2 111

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

Shares held by Board of Directors and Management group	30.09.2012	30.09.2011
SEB Private Bank S.A. Luxembourg (Board Director - Marcus Hansson)	565 000	65 000
Board Director - Marcus Hansson	11 668	11 668
SIX SIS AG 25PCT (Board Director - Marcus Hansson)	-	500 000
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	301 872	301 872
Nilsholmen Investering AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	209 222	209 222
Nilsholmen AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	20 200	20 200
Invest OK AS (Board Director - Kristine Holm)	15 000	15 000
CFO - Gunnar Dolven	8 000	8 000
Board Director - Tone Kvåle	5 000	5 000
Mng. HR, Economy & Adm. - Hege Furland	2 858	2 858
Ordinary shares	**1 138 820**	**1 138 820**
% of total shares	6,1 %	6,1 %

11. Fair value hierarchy

As at 30.09.2012 the Group does not hold any financial instruments carried at fair value on the statement of financial positions.

12. Purchase of lease - Calidus Engineering Ltd.

In June 2011 Calidus Engineering Ltd. purchased a lease of units 6&7 Treleigh Industrial Estate of a total of MNOK 12.2 (£1 412 500) of which MNOK 8.1 (£940 000) relates to the building (shell only) and MNOK 4.1 (£472 500) relates to the plant and machinery. The building will be depreciated over 25 years and the plant and machinery will be depreciated over 10 years. The purchase is financed by:

1. A mortgage with HSBC of MNOK 6.9 (£800 000) over 15 years with an interest rate of 2.5% over the bank's steering base rate.

2. A grant from The European Regional Development Fund of total MNOK 3.9 (£450 000) over the next 3 years. The grant is recognised in other receivables and will be written off to the P&L over the life of the assets to which it relates.

3. An additional loan of MNOK 1.7 (£200,000) from HSBC over 15 years with an interest rate of 2.5% over the bank's steering base rate.

The mortgage with HSBC of £800 000 and the loan with HSBC of £200 000 were in breach of 2 out of 3 covenants per 30.06.2012 and are in breach of all 3 covenants per 30.09.2012. HSBC only calculate the covenants per 31.12 and the company will need a waiver from the bank if still in breach per 31.12.2012. If HSBC do not issue a waiver the terms of the mortgage and the loan must be renegotiated.

As the mortgage and loan are in breach of the covenants per 30.09.2012 they are classified as current liabilities. If not in breach a total of MNOK 7.9 of this mortgages and loans would have been classified as non-current liabilities and a total of MNOK 1.2 would have been classified as current liabilities per 30.09.2012.

As per 30.09.2012 Calidus Engineering Ltd. has a bank overdraft of MNOK 0.5 (kGBP 56.6).

13. Accounts receivables

A total of GBP 106 518 has been recognised as provision for potential loss on receivables in Calidus Engineering Ltd. per 30.09.2012.

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