



**BADGER**  
EXPLORER



Quarterly Report Q3 2014

### HIGHLIGHTS Q3 2014

The main activity during Q3 2014 at Badger Explorer ASA (BXPL) has been to plan and execute Milestone 5 of the Badger Explorer Demonstrator Program. The Milestone 5 test is comprehensive and includes stepwise trial of modules and the entire tool. As can be expected on a prototype, several challenges have been encountered, resolved and will be implemented.

Formal approval of Milestone 5 of the Demonstrator Program (completion of the second generation pilot tool) is expected in Q4 2014. Upon approval of Milestone 5 by the Steering Committee NOK 4.335 million will be released.

In addition to the full scale test, BXPL has spent much time through Q3 on introduction of the Chinese partner to the Badger Demonstrator Program. As reported in the Q2 2014 Board of Directors report, China National Petroleum Corporation Drilling Research Institute (CNPC DR) signed on 5<sup>th</sup> August 2014 an agreement with BXPL to become the fifth participant in the ongoing BXPL Badger Demonstrator Program. In addition, CNPC DR expresses a willingness to participate as a full member in the next phase development, The Badger Development Program, planned to go on until the end of 2017.

The aim of the next phase program is to introduce a commercial Badger Explorer tool to the market.

Furthermore, BXPL has during Q3 agreed with the sponsoring oil companies, Innovasjon Norge and the Research Council of Norway on a funding payment schedule that better suits the ongoing test activities. All payments related to the Demonstrator Program are expected to be released in Q4 2014 and January 2015.

The final milestone in the Demonstrator Program, Milestone 6, will be an extensive wrap-up report of the entire Program. BXPL will focus on lessons learned and recommendations for the next and final stage of the Badger Explorer development, the Development Program, leading up to a commercial Badger Explorer Tool.

### STATUS OF THE BADGER EXPLORER DEMONSTRATOR PROGRAM

Milestone 5, which is a full scale drilling and compaction test, is being performed in a custom built test jig at Badger Explorer's facilities. The test jig will be utilized in the next phase development and will play an important role in qualifying current and new technical solutions for the tool.

The preparations for the Milestone 5 test includes module and sub-system testing and finally full scale drilling and compaction testing of the entire tool in relevant formations.

The main objectives of Milestone 5 are:

- The entire system tested in BXPL's workshop, this includes drilling and compaction.
- The Badger tool operated in a horizontal position utilizing the custom build test jig.
- The drilling and compaction accomplished in multiple lithologies.
- During the preparations for the final test, the separate modules of the tool will be tested in differing formations in order to test interoperability (e.g., anchoring in soft formation while drilling into hard formation).

All the BXPL design, manufacturing and testing procedures are based on DNV Recommended Practice DNV-RP-A203.

BXPL will prepare for the final milestone in the 125 Demonstrator Program, Milestone 6, which will include:

- Evaluation of the Badger Explorer Demonstrator Program.
- Provide a full report of the development, qualification and testing of the 125 Demonstrator tool including recommendations for improvements for the next phase development.
- Definition of the Scope of Work for Development Program.

In parallel with this, the BXPL team will continue the R&D projects related to the main challenges, including drilling, transport, compaction and locomotion.

The R&D efforts, combined with the results from Milestone 5, will provide a solid starting point for the Badger Explorer Development Program.

The Milestone 6 of the Badger Explorer Demonstrator Program will release NOK 2.645 million.





## THE BADGER EXPLORER DEVELOPMENT PROGRAM

BXPL has now finalized the Scope of Work and identified the main milestones in the Development Program. This will address the main challenges identified in the previous programs and aim to deliver a commercial tool at the end of the Program.

The details regarding the main technical challenges, risks and solutions have been discussed and agreed with our current partners and Badger Explorer has a good understanding of the partners' expectations and requirements for the Development Program, including operational requirements, logging requirements and schedules.

During the latest part of the Demonstrator Program, BXPL identified a few technical improvement opportunities. These will be addressed in the R&D projects and later integrated with the Scope of Work of the Badger Explorer Development Program.

The Badger 125 Demonstrator tool will be used further to identify and mitigate technology risks, better understand how the overall system works and gain hands on operational experience with the tool.

The goal of the Development Program is to design and manufacture a third generation Badger tool, incorporating all lessons learned from the Demonstrator Program including the outcome from the ongoing R&D activities.

The Development Program will be launched early 2015 and run through 2017. The plan is to manufacture two Badger tools during the Development Program, run the first Field Test early 2016 and the second late in 2016/early 2017. These field tests will be the first part of the Field Pilot Program and will be burial tests without recovery of the tools. The Field Pilot Program's test schedule will depend on the progress made in the Development Program.

BXPL has initiated discussions with the current partners regarding potential acceleration of the technology development and the field testing. Time to market is a key issue for BXPL and efficient funding of the Development Program and the Field Pilot Program is an important factor in this respect.

## FINANCIALS

### Investor Relations

Badger Explorer ASA had 764 shareholders on 30<sup>th</sup> September 2014. Norwegian entities and individuals held 65.4% of the outstanding shares and the 20 largest shareholders held 71.1% of the outstanding shares.

### Badger Explorer ASA

The staff of Badger Explorer ASA consisted of 12 full-time employees as of 30<sup>th</sup> September 2014, same as of 30<sup>th</sup> September 2013.

### Main Figures

Revenues for Q3 2014 were NOK 0.00 and NOK 0.00 as of 30<sup>th</sup> September 2014, compared to NOK 0.00 for Q3 2013 and NOK 70,268 as of 30<sup>th</sup> September 2013.



Operating expenses for Q3 2014 were NOK 5.677 million and NOK 15.735 million as of 30<sup>th</sup> September 2014, compared to NOK 2.358 million for Q3 2013 and NOK 13.926 million as of 30<sup>th</sup> September 2013.

EBITDA for Q3 2014 was NOK -5.677 million and NOK -15.735 million as of 30<sup>th</sup> September 2014, compared to NOK -2.358 million for Q3 2013 and NOK -13.856 million as of 30<sup>th</sup> September 2013.

Total development costs of the Badger Explorer project in Q3 2014 were NOK 6.601 million, of which NOK 5.826 million was capitalized. As of 30<sup>th</sup> September 2014, development costs were NOK 21.849 million, of which NOK 19.039 million was capitalized. Total development costs of the Badger Explorer project in Q3 2013 were NOK 9.520 million, of which NOK 8.758 million was capitalized. As of 30<sup>th</sup> September 2013, total development costs were NOK 23.310 million, of which NOK 21.175 million was capitalized.

Capitalized public grants for the Badger Explorer project were NOK 6.754 million for Q3 2014 and NOK 11.010 million as of 30<sup>th</sup> September 2014, compared to NOK 3.987 million for Q3 2013 and NOK 17.567 million as of 30<sup>th</sup> September 2013. All public grants are booked as deductions to the capitalized project costs.

Earnings per share amounted to NOK -0.33 per share for Q3 2014 and NOK -0.93 as of 30<sup>th</sup> September 2014, compared to NOK -0.25 per share for Q3 2013 and NOK -0.98 per share as of 30<sup>th</sup> September 2013.

CONSOLIDATED SUMMARY (Unaudited figures in NOK 1000)	Quarters			Year to date	
	Q3 2014	Q2 2014	Q3 2013	30.09.2014	30.09.2013
Revenues	0	0	0	0	70
Operating expenses	5 677	5 254	2 358	15 735	13 926
EBITDA	-5 677	-5 254	-2 358	-15 735	-13 856
Earnings per share	-0.33	-0.32	-0.25	-0.93	-0.98
Projects development costs	6 601	6 271	9 520	21 849	23 310
Public grants for projects development	6 754	1 254	3 987	11 010	17 567
Capitalization of development costs and public grants	-928	4 083	4 770	8 029	3 608

The cash position at BXPL was NOK 411,616 as of 30<sup>th</sup> September 2014, compared to NOK 17.259 million as of 30<sup>th</sup> September 2013.

As of 30<sup>th</sup> September 2014, BXPL had a net equity of NOK 84.887 million (equity ratio of 53.2%), compared to NOK 107.756 million as of 30<sup>th</sup> September 2013 (equity ratio of 70.0%).

Net cash flow arising from the operating activities in the continuing operations for Q3 2014 was NOK -5.980 million and NOK -18.910 million as of 30<sup>th</sup> September 2014, compared to NOK -3.483 million for Q3 2013 and NOK -14.126 million as of 30<sup>th</sup> September 2013. Net cash outflow includes payments to vendors for goods and services received.



Net cash flow arising from the investment activities in the continuing operations for Q3 2014 was NOK -5.826 million and NOK -19.039 million as of 30<sup>th</sup> September 2014, compared to NOK -496,053 for Q3 2013 and NOK -12.740 million as of 30<sup>th</sup> September 2013. Net cash outflow includes all the development costs related to the Badger Explorer Development project, which are eligible for capitalization. Net cash inflow in Q3 2013 includes cash proceeds from the disposal of the shares in Severn Subsea Technologies Ltd.

Net cash flow arising from the financing activities in the continuing operations for Q3 2014 was NOK 9.793 million and NOK 10.324 million as of 30<sup>th</sup> September 2014, compared to NOK 2.350 million for Q3 2013 and NOK 30.716 million as of 30<sup>th</sup> September 2013. Net cash inflow includes contributions from the industry partners and public grants received from funding institutions. Net cash inflow from financing activities also includes a bank overdraft and a repayment of bad debt from US Seismic System Inc. (USSI), which had been written off in full in accordance with the Completion Accounts requirement in the Share Purchase Agreement.

Total net changes in cash flow from continuing operations for Q3 2014 were NOK -2.013 million and NOK -27.625 million as of 30<sup>th</sup> September 2014, compared to NOK -1.629 million for Q3 2013 and NOK 3.850 as of 30<sup>th</sup> September 2013.

In June 2013, BXPL divested 70% of its interest in Severn Subsea Technologies Ltd. Consequently, revenues and operating expenses from continuing operations exclude the disposed business, which have been reclassified to discontinued operations for all periods presented. Any gain or loss from disposal of the business, together with the results of these operations until the date of disposal is reported separately as discontinued operations.

#### COMMITTED FUNDING

- Demonstrator partner funding NOK 6.980 million (excl. VAT)  
(NOK 4.335 million (excl. VAT) for Milestone 5 will be received in December 2014);  
(NOK 2.645 million (excl. VAT) for Milestone 6 will be received in January 2015)
- Skattefunn NOK 1.564 million (received 20<sup>th</sup> October 2014)
- Research Council of Norway NOK 9.349 million
- Innovation Norway NOK 2 million (to be received in November 2014)
- CNPC DR The step-up payment as new partner in the Demonstrator Program expected to be paid in November 2014.  
The step-up payment equals the contribution given by each of the four other sponsors.

On 22 August 2012, BXPL entered into a revolving credit facility with its Norwegian banker Sparebanken Vest that provides for borrowings of up to NOK 7.5 million. The drawdown of the facility is NOK 2.827 million as of 30<sup>th</sup> September 2014.

Based on the above, the cash need for the planned activities in the coming months is covered.

#### OUTLOOK

By delivery of Milestone 5, the Demonstrator Program is for all practical purposes completed and the delivery represents a major reduction in the technical risk related to the development of the Badger Explorer technology.

The Board of Directors is pleased that a new and the fifth partner have joined the Demonstrator Program. The Board is furthermore convinced that CNPC DR will be a strong contributor to secure future commercial operations and sale of Badger Explorer services.

The main focus for the BXPL organization will be to finalize the Scope of Work for the Development Program, define early commercial Badger versions and secure participation from the partners.

Kick off for the Development Program is expected to be early 2015.

Stavanger, 29<sup>th</sup> October 2014  
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 Forussskogen 1, 4033 Stavanger, Norway.

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

The consolidated financial statements have been prepared on an historical cost basis, except for investment in the associate Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.) which is initially recognised at fair value at the effective date of the disposal of the shares.

Severn Subsea Technologies Ltd. has been consolidated with the parent company Badger Explorer ASA starting from December 1, 2007. Intercompany sales and purchases, intercompany receivables and payables, intercompany investments and share capital were eliminated. BXPL sold 70% of shares of its subsidiary Severn Subsea Technologies Ltd. for a net amount of NOK 7.189 million with a loss of NOK 1.120 million in the BXPL Group on 30 June 2013. Upon settling the completion accounts, BXPL realized a further loss of NOK 838,350. The results of the subsidiary disposed were included in the consolidated statement of income up to the effective date of the disposal. As of 30 September 2014, the BXPL Group consists of Badger Explorer ASA.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the BXPL Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit and loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit and loss or retained earnings, as appropriate.

Non-controlling interest represent the portions of profit and loss and net assets not held by the BXPL Group are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholder's equity.

The interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the consolidated financial statements as of 31 December 2013.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements as of 31 December 2013.

The BXPL Group's consolidated financial statements are presented in NOK. The consolidated income statement in foreign subsidiary is translated into NOK using the average exchange rate for the period (month). Assets and liabilities in foreign subsidiary, including goodwill and adjustments of fair value of identifiable assets and liabilities arising on the acquisition of subsidiary, 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 IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate.

Financial assets at fair value through profit and loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit and loss.

Financial liabilities within the scope IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, 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, loans and borrowings.

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 consolidated statement of financial position 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 are recognised as an intangible asset when the BXPL 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 reliably the expenditures during development.
- The availability of resources to complete the assets.

When all the above criteria are met, the cost related to the development starts to be recognised in the consolidated statement of financial position.

Costs that have been charged as expenses in previous accounting periods are not recognised in the consolidated statement of financial position.

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 BXPL Group and the revenue can be reliably measured, regardless of when the payment is being made.

Interest income is recognised in the consolidated 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 capitalised together with the cost.

Contributions from partners are recognised in the consolidated statement of financial position under long term liabilities as the contributions are subject to repayment ref note 14 in the BXPL Group annual accounts.

The options granted in Q3 2009 were replaced with new options on 17 February 2014. The Board of Directors of BXPL implemented a new share option program for BXPL employees offering a total of 213,000 share options at a strike price of NOK 7.51, corresponding to 1.2% of all outstanding BXPL shares. The options granted will be vested in tranches and can be exercised at the earliest 12 months subsequent to the date of grant and thereafter at up to 2 occasions during each calendar year, between three and ten days after publications of the Company's Q1 and Q3 quarterly results. All options were "out of the money" as of 30 September 2014.

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

## CONSOLIDATED INCOME STATEMENT

Unaudited figures in NOK 1000	Quarters			Note	Year to date		Year end
	Q3 2014	Q2 2014	Q3 2013		30.09.2014	30.09.2013	31.12.2013
<b>Revenues</b>							
Other Income	0	0	0		0	70	70
Public grants	6 754	1 254	3 987	1,2	11 010	17 567	22 375
Capitalized public grants	-6 754	-1 254	-3 987	1,2	-11 010	-17 567	-22 375
<b>Total Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>70</b>	<b>70</b>
<b>Operating Expenses</b>							
External services for development project	4 276	3 467	7 165		13 419	16 707	24 991
Payroll and related costs	4 060	3 899	1 425		12 226	10 706	14 909
Other operating expenses	3 167	3 225	2 525		9 129	7 688	10 729
Capitalized development costs	-5 826	-5 337	-8 758		-19 039	-21 175	-31 523
<b>Total Operating Expenses</b>	<b>5 677</b>	<b>5 254</b>	<b>2 358</b>		<b>15 735</b>	<b>13 926</b>	<b>19 105</b>
<b>EBITDA</b>	<b>-5 677</b>	<b>-5 254</b>	<b>-2 358</b>		<b>-15 735</b>	<b>-13 856</b>	<b>-19 036</b>
Depreciation	72	71	92		233	359	451
<b>Operating profit (loss)</b>	<b>-5 749</b>	<b>-5 325</b>	<b>-2 450</b>		<b>-15 968</b>	<b>-14 215</b>	<b>-19 486</b>
Net financial income (loss)	-334	-535	-47	3,10	-1 310	144	15
<b>Profit (loss) before taxes from continuing operations</b>	<b>-6 083</b>	<b>-5 860</b>	<b>-2 497</b>		<b>-17 278</b>	<b>-14 071</b>	<b>-19 471</b>
Tax on ordinary result from continuing operations	0	0	0		0	0	0
<b>Net profit (loss) from continuing operations</b>	<b>-6 083</b>	<b>-5 860</b>	<b>-2 497</b>		<b>-17 278</b>	<b>-14 071</b>	<b>-19 471</b>
<b>Discontinued operations:</b>							
Profit (loss) after tax for the period from discontinued operations	0	0	0	10	0	-3 506	-4 344
<b>Net profit (loss)</b>	<b>-6 083</b>	<b>-5 860</b>	<b>-2 497</b>		<b>-17 278</b>	<b>-17 577</b>	<b>-23 815</b>
Profit (loss) attributable to non-controlling interests	0	0	0		0	54	54
<b>Profit (loss) attributable to equity holders of the parent</b>	<b>-6 083</b>	<b>-5 860</b>	<b>-2 497</b>		<b>-17 278</b>	<b>-17 631</b>	<b>-23 869</b>
Earnings per share	-0.33	-0.32	-0.25		-0.93	-0.98	-1.31
Earnings per share diluted	-0.33	-0.32	-0.25		-0.93	-0.98	-1.31



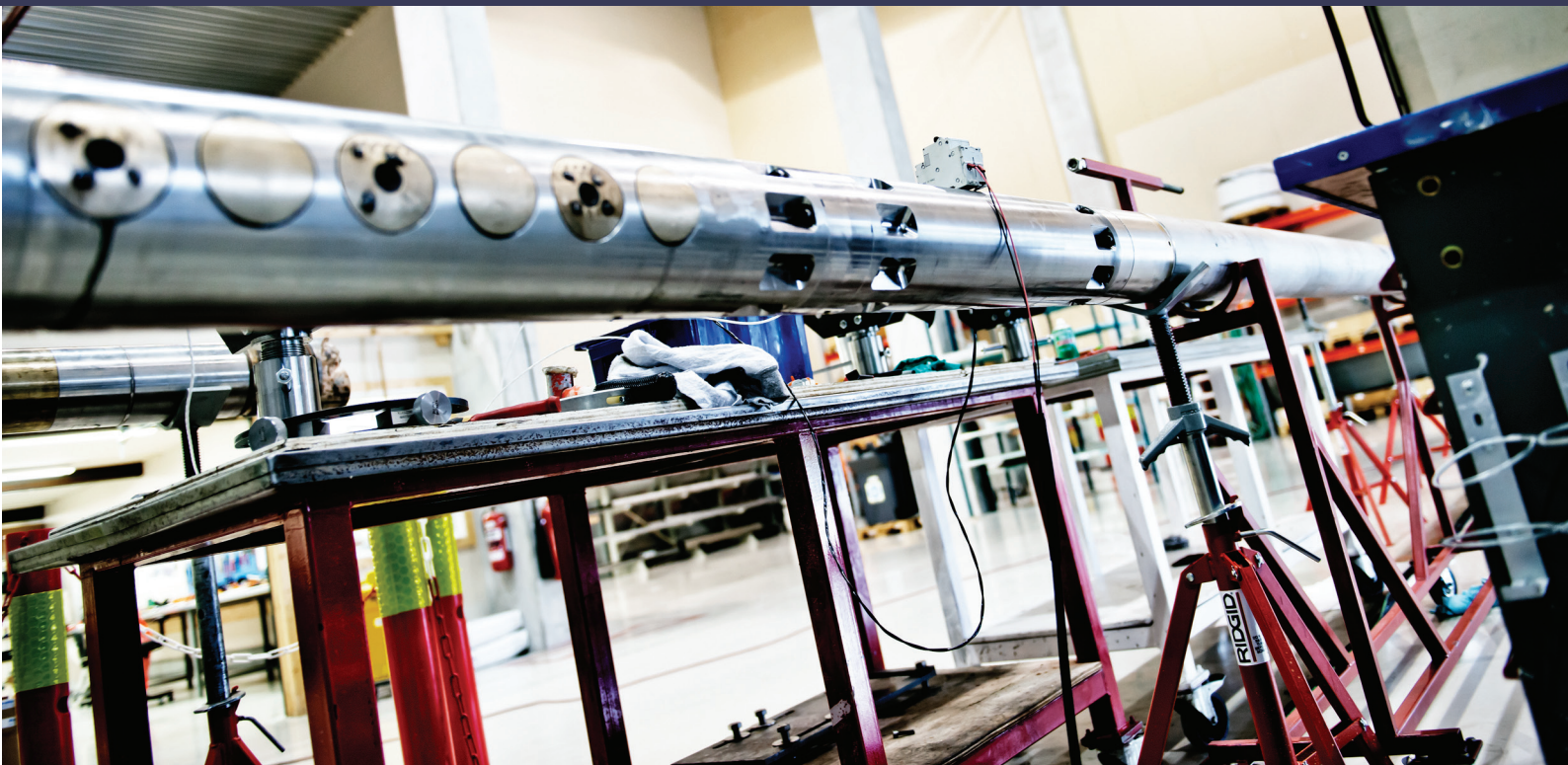
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<b>ASSETS</b> (Unaudited figures in NOK 1000)	<b>30.09.2014</b>	<b>30.06.2014</b>	<b>30.09.2013</b>	<b>Note</b>	<b>31.12.2013</b>
<b>NON-CURRENT ASSETS</b>					
Capitalized development costs	138 814	139 742	125 244	2,6	130 785
Patent rights	387	387	387		387
<b>Total intangible assets</b>	<b>139 201</b>	<b>140 129</b>	<b>125 631</b>		<b>131 172</b>
Property, plant & equipment	369	441	646		573
<b>Total tangible assets</b>	<b>369</b>	<b>441</b>	<b>646</b>		<b>573</b>
Investments in associates	1 124	1 503	2 959	3,10	2 701
<b>Total investments in associates</b>	<b>1 124</b>	<b>1 503</b>	<b>2 959</b>		<b>2 701</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>140 693</b>	<b>142 073</b>	<b>129 235</b>		<b>134 446</b>
<b>CURRENT ASSETS</b>					
Accounts receivables	12 600	0	0	6	0
Other receivables	5 794	6 526	7 467		6 920
<b>Total receivables</b>	<b>18 394</b>	<b>6 526</b>	<b>7 467</b>		<b>6 920</b>
<b>Cash and cash equivalents</b>	<b>412</b>	<b>2 425</b>	<b>17 259</b>		<b>24 943</b>
<b>TOTAL CURRENT ASSETS</b>	<b>18 806</b>	<b>8 951</b>	<b>24 727</b>		<b>31 863</b>
<b>TOTAL ASSETS</b>	<b>159 499</b>	<b>151 024</b>	<b>153 962</b>		<b>166 309</b>

<b>EQUITY AND LIABILITIES</b> (Unaudited figures in NOK 1000)	<b>30.09.2014</b>	<b>30.06.2014</b>	<b>30.09.2013</b>	<b>Note</b>	<b>31.12.2013</b>
<b>EQUITY</b>					
Share capital	2 317	2 317	2 317	3	2 317
Share premium	218 070	218 070	218 070	4	218 070
Other paid in capital	3 504	3 333	2 856	3	2 966
<b>Total paid in equity</b>	<b>223 891</b>	<b>223 720</b>	<b>223 243</b>		<b>223 353</b>
Retained earnings	-139 004	-132 921	-115 487		-121 725
<b>Total retained earnings</b>	<b>-139 004</b>	<b>-132 921</b>	<b>-115 487</b>		<b>-121 725</b>
<b>TOTAL EQUITY</b>	<b>84 887</b>	<b>90 800</b>	<b>107 756</b>		<b>101 628</b>
<b>LIABILITIES</b>					
Capitalized grants	66 520	53 920	38 720	6	53 920
<b>Total non-current liabilities</b>	<b>66 520</b>	<b>53 920</b>	<b>38 720</b>		<b>53 920</b>
Accounts payables	3 178	4 541	4 412	3,8	4 401
Public duties payables	688	1 221	603		3 104
Debt financial institutions	2 827	0	0	11	0
Other short term liabilities	1 399	542	2 471		3 255
<b>Total current liabilities</b>	<b>8 091</b>	<b>6 304</b>	<b>7 486</b>		<b>10 761</b>
<b>TOTAL LIABILITIES</b>	<b>74 611</b>	<b>60 224</b>	<b>46 206</b>		<b>64 681</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>159 499</b>	<b>151 024</b>	<b>153 962</b>		<b>166 309</b>

## CONSOLIDATED STATEMENT OF CASH FLOW

	Quarters				Year to date		Year end
Unaudited figures in NOK 1000	Q3 2014	Q2 2014	Q3 2013	Note	30.09.2014	30.09.2013	31.12.2013
Contribution from operations*	-5 506	-5 043	-4 742		-15 197	-15 558	-20 597
Change in accounts receivables and accounts payables	-1 363	651	123	3,8	-1 223	-7 166	2 487
Change in other receivables and payables	889	474	1 137		-2 490	8 599	1 079
Net cash flow from operating activities	-5 980	-3 918	-3 483		-18 910	-14 126	-17 032
Capitalization of development cost	-5 826	-5 337	-8 758	2	-19 039	-21 175	-31 523
Sale of shares in subsidiaries	0	0	8 262	3	0	8 435	5 442
Net cash flow from investment activities	-5 826	-5 337	-496		-19 039	-12 740	-26 081
Public grants	6 921	1 159	2 274	1	10 353	16 071	20 343
Contribution from industry partners	0	0	0	6	0	14 720	29 920
Interest received	11	5	116		133	153	387
Interest paid	-56	-35	-40		-163	-228	-3
Other financial income	91	176	0		267	0	0
Proceeds from borrowings financial institution	2 827	0	0	11	2 827	0	0
Net cash flow from financing activities	9 793	1 305	2 350		10 324	30 716	50 647
<b>Total net changes in cash flow - continuing operations</b>	<b>-2 013</b>	<b>-7 949</b>	<b>-1 629</b>		<b>-27 625</b>	<b>3 850</b>	<b>7 535</b>
<b>Total net changes in cash flow - discontinued operations</b>	<b>0</b>	<b>0</b>	<b>0</b>	10	<b>0</b>	<b>-4 208</b>	<b>-199</b>
Net foreign translation differences	0	0	0		0	7	0
Cash and cash equivalents beginning of period	2 425	10 374	18 887		24 943	17 608	17 608
<b>Cash and cash equivalents end of period</b>	<b>412</b>	<b>2 425</b>	<b>17 259</b>		<b>412</b>	<b>17 259</b>	<b>24 943</b>
Profit (loss) attributable to equity holders of the Company	-6 083	-5 860	-2 497		-17 278	-14 072	-19 471
Profit (loss) attributable to non-controlling interests	0	0	0		0	54	54
Employee options	171	211	-2 384	5	538	-1 726	-1 616
Depreciation	72	71	92		233	359	451
Financial income	-101	-211	-116		-430	-525	-735
Financial expenses	56	35	40		163	228	339
Share of (profit) / loss of associates	379	711	123	3,10	1 577	123	380
<b>*Contribution from operations before tax</b>	<b>-5 506</b>	<b>-5 043</b>	<b>-4 742</b>		<b>-15 197</b>	<b>-15 558</b>	<b>-20 597</b>



## CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

Unaudited figures in NOK 1000	Note	Share capital	Share premium	Other paid in capital	Retained earnings	Non-controlling interest	Total equity
Equity as of 31.12.2013		2 317	218 070	2 966	-121 725	0	101 628
Total comprehensive income					-17 278	0	-17 278
Option plan payment	5			538			538
Equity as of 30.09.2014		2 317	218 070	3 504	-139 004	0	84 887

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Quarters		Year to date		Year end
	Q3 2014	Q2 2014	Q3 2013	30.09.2014	30.09.2013	31.12.2013
Total comprehensive income						
Profit (loss) for the year (period)	-6 083	-5 860	-2 497	-17 278	-17 577	-23 815
Other comprehensive income - items that will later be reclassified to profit and loss						
Translation differences	0	0	0	0	-1 086	1 934
Comprehensive income at end of period	-6 083	-5 860	-2 497	-17 278	-18 663	-21 881

		Quarters		Year to date		Year end
	Q3 2014	Q2 2014	Q3 2013	30.09.2014	30.09.2013	31.12.2013
Total comprehensive income attributable to:						
Equity holders of the parent	-6 083	-5 860	-2 497	-17 278	-18 718	-21 935
Non-controlling interest	0	0	0	0	55	54
Total comprehensive income	-6 083	-5 860	-2 497	-17 278	-18 663	-21 881



## NOTES

1. Badger Explorer ASA (BXPL) has previously received public grants from the Research Council of Norway (RCN), Innovation Norway and Skattefunn for the Badger Explorer Demonstrator Program. The projects of the Badger Explorer Demonstrator Program are funded with a percentage of the total project costs. During Q3 2014, RCN has through its PETROMAKS-program granted NOK 882,835 to the development of the Badger autonomous drilling tool. Through the PETROMAKS2-program, RCN granted NOK 2.038 million funding for the development of HPHT ultrasonic system. Other contributors to the Demonstrator Program include Innovation Norway, which awarded NOK 4 million public grant during July - September 2014.
2. The public grants and all project development costs of the BXPL Group, related to the Badger Explorer Demonstrator Program, are capitalized in accordance with the IFRS regulations, except of NOK 2.810 million as at 30 September 2014. These additional project costs are related to the restriction on capitalization of own personnel costs in the IFRS standard.
3. Severn Subsea Technologies Ltd. (former Calidus Engineering Ltd.) has been consolidated with the parent company BXPL starting from 1 December 2007. Intercompany sales and purchases, intercompany receivables and payables, intercompany investments and share capital were eliminated. On 28 June 2013, BXPL sold 70% of its shares in SST for a net amount of NOK 7.189 million, realizing an estimated loss of NOK 1.120 million in the Group. Upon settling the Completion Accounts, BXPL realized a further loss of NOK 838,350 accounted for in December 2013. The results of the subsidiary disposed were included in the Consolidated Income Statement up to the effective date of the disposal. As of 30 September 2014, the BXPL Group consists of Badger Explorer ASA.

From 28 June 2013, BXPL owns 30% of the shares in SST. The investment in SST is initially recognised at fair value at the effective date of the sale from 100% to 30% of the shares. Subsequent measurement of the remaining 30% of the shares is recognized according to equity method.

The BXPL Group has a significant influence but not a control, accompanying a shareholding of 30% of the voting rights.

4. On 9 May 2007, the General Assembly decided to split the existing shares which increased a 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 of Badger Explorer ASA on the Oslo Stock Exchange on 12 June 2007. The total number of shares as at 30 September 2014 is 18,537,288 at par value of NOK 0.125 per share.
5. On 17 February 2014 the Board of Directors of BXPL implemented a new Share Options Program for BXPL employees offering a total of 213,000 share options at a strike price of NOK 7.51, corresponding to 1.2% of all outstanding BXPL shares. The options granted will be vested in tranches and can be exercised at the earliest 12 months subsequent to the date of grant and thereafter at up to 2 occasions during each calendar year, between three and ten days after publications of the Company's Q1 and Q3 quarterly results. A total number of 36,000 share options forfeited. The remaining 177,000 share options were "out of the money" as of 30 September 2014.

The share options agreements are equity-based incentive compensation. The employee share options are recognised as an expense in the Consolidated Income Statement under "Payroll and related costs" and in the Consolidated Statement of Financial Position under "Other paid in capital". The options (incl. Employers' national insurance contributions) are recognised over the vesting period starting from September 2009. The share option value is based on a third party evaluation of the options at the grant date where the Black-Scholes model is used for calculation. The replacement of options is treated as a cancellation and re-pricing under IFRS 2.

Former CEO Mr. David Blacklaw was granted 370,579 share options in BXPL at a strike price of NOK 19 per share in September 2011. Mr. Blacklaw resigned as the Company's President and CEO on 15 September 2013. A total of 370,597 share options forfeited on 15 September 2013.

BXPL entered into a consultancy agreement with Mr. Blacklaw on 16 September 2013. Mr. Blacklaw was granted 100,000 share options to acquire shares in BXPL at a strike price of NOK 7.50. The share options can be exercised at any time from the date of grant until 31 December 2014. The share options were "out of the money" as of 30 September 2014.

On 16 September 2013, Mr. Steinar Bakke took on the position as President and CEO. Upon commencement of the employment, Mr. Bakke was granted 370,000 share options in BXPL at a strike price of NOK 6.50 per share. 185,000 share options will vest on the date of the publication of the Company's Q4 2015 report. A further 185,000 share options will vest on the date of the publication of the Company's Q2 2017 report. The exercise of fully vested share options is at the sole discretion of the option holder. All share options were "out of the money" as of 30 September 2014.

6. The BXPL Group received contributions from the following industry partners: Statoil Petroleum ASA, ExxonMobil Exploration and Production Norway AS, Shell Technology Norway AS (the previous Prototype Program partner), Chevron Energy Technology Company and Wintershall Norge AS. A total of NOK 66.520 million of the 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.

On 5 August 2014, BXPL has signed a Co-operation Agreement with China National Petroleum Corporation Drilling Research Institute (CNPC DR), whereby CNPC DR became a new sponsoring partner of the Badger Explorer Demonstrator Program. In consideration of the participation in the Demonstrator Program, BXPL has invoiced CNPC DR for payment. The contribution will be received after the closing of Q3 2014. The amount is recognized as account receivables in the Consolidated Statement of Financial Position as of 30 September 2014.

The contributions are recognised as capitalized grants in the Consolidated Statement of Financial Position.

7. Deferred tax asset has not been recognised in the Consolidated Statement of Financial Position.
8. Related party transactions

Unaudited figures in NOK 1000

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

Transactions with related party	30.09.2014	30.09.2013
Purchases of services*	3 373	1 022

\* In June 2013, BXPL entered into a consultancy agreement with two of its largest shareholders - Dalvin Rådgivning AS and Nilsholmen AS. In 2014, payments totalling NOK 1.320 million were made to Dalvin Rådgivning AS in respect of performed consultancy services and NOK 23,045 related to travel expenses. Mr. Gunnar Dolven, who is a CFO of BXPL, is a director of Dalvin Rådgivning AS. In 2014, Nilsholmen AS, a company owned by Mr. Kjell Markman who is a Sr.VP Business Development & Strategy of BXPL, received payments of NOK 1.754 million in respect of performed consultancy services and NOK 276,116 related to travel expenses.

Transactions with Severn Subsea Technologies Ltd.	30.09.2014	30.09.2013
Accounts payable**	205	2 158
Purchased services**	1 842	9 867
Loan to associate	0	2 157

\*\*BXPL purchased engineering- and production services from SST. All purchased services from SST in 2014 are related to the BXPL's development project.

Shares held by members of the Board of Directors and members of the Management Group	30.09.2014	30.9.2013
SEB Private Bank S.A. Luxembourg (Chairman of the Board - Marcus Hansson)	565 000	565 000
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	301 872	301 872
Nilsholmen Investering AS (Sr. VP Business Development & Strategy - Kjell Markman)	209 222	209 222
President & CEO - Steinar Bakke	30 000	0
Nilsholmen AS (Sr. VP Business Development & Strategy - Kjell Markman)	20 200	20 200
Chairman of the Board - Marcus Hansson	11 668	11 668
CFO - Gunnar Dolven	8 000	8 000
Board member - Tone Kvåle	5 000	5 000
<b>Ordinary shares</b>	<b>1 150 962</b>	<b>1 120 962</b>
% of total shares	6.2 %	6.0 %

#### 9. Fair value hierarchy

As at 30 September 2014, the BXPL Group does not hold any financial instruments carried at fair value in the Consolidated Statement of Financial Position.

#### 10. Discontinued operations - partial divestment of shares in Severn Subsea Technologies Ltd.

Unaudited figures in NOK 1000

On 28 June 2013, BXPL entered into the Share Purchase Agreement (Agreement) with Severn Glocon Group PLC (Severn Glocon), whereby BXPL sold 84 shares pursuant to the Agreement representing 70% of the issued share capital of its subsidiary Severn Subsea Technologies Ltd. (SST) for the equivalent of NOK 7.189 million with a loss of NOK 1.120 million in the Group. Upon settling the Completion Accounts, BXPL realized a further loss of NOK 838,350 accounted for in December 2013.

Under the Agreement, Severn Glocon will acquire another 15% of the shares in SST in 2015 and the remaining 15% in 2016 on an earn-out model basis. The share purchase price for the two future transactions is linked to SST's financial performance during 2014 and 2015 respectively. Under the terms of the Agreement, BXPL will continue to place orders with SST worth minimum of £750k over the next 2 years (£500k in 2014 and £250k in 2015).

The 36 shares retained by BXPL represent 30% of the issued share capital of SST. The investment in SST is initially recognised at fair value at the effective date of the sale from 100% to 30% of the shares. Subsequent measurement of the remaining 30% of the shares is accounted for using the equity method.

The BXPL Group has a significant influence but not a control, accompanying a shareholding of 30% of the voting rights.

Under the equity method, the Consolidated Statement of Financial Position includes the initial fair value of the investment, plus the share of the profit or loss generated by SST in the period the profit or loss occurs. Due to the changes in fair value, the carrying amount of the investment is subsequently increased or decreased. BXPL's share of profit or loss of the associate is recognised in the Consolidated Income Statement under "Net financial income (loss)" and in the Consolidated Statement of Cash Flow as a single line ("Share of (profit) / loss of associates").





**Carrying amount movements in the Statement of Financial Position of the BXPL Group for the period ended 30 September 2014:**

Carrying amount of 30% interest retained as of 28 June 2013	3 081
Share of net result in the associate for the period 29 June - 31 December 2013	-380
Share of net result in the associate for the period 1 January - 30 September 2014	-1 577
Closing balance for the period ended 30 September 2014	1 124

The partial divestment of shares have been treated as discontinued operations in accordance with IFRS 5 and comparable figures have been changed accordingly.

**11. Revolving credit facility**

BXPL has entered into a revolving credit facility with its Norwegian bank Sparebanken Vest on 22 August 2012 that provides for borrowings of up to NOK 7.5 million with an interest rate of 4.95%. In addition, there is a yearly commission of 1.0% on the credit line. The overdraft facility of NOK 2.827 million has been withdrawn as of 30 September 2014.

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