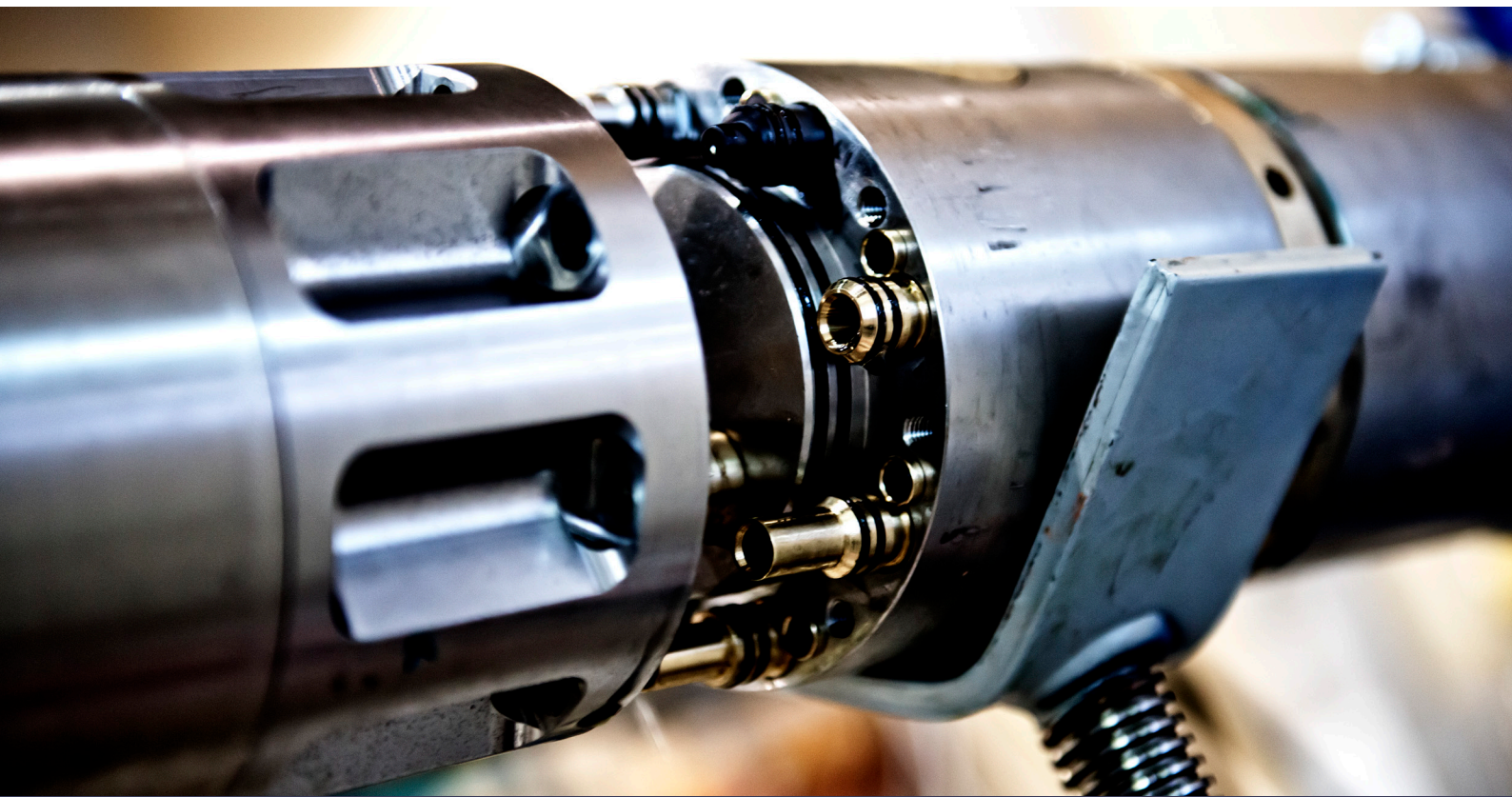




**BADGER**  
EXPLORER



Quarterly Report Q4 2014

### HIGHLIGHTS Q4 2014

The main focus during Q4 2014 at Badger Explorer ASA (BXPL) was to plan and execute Milestone 5 of the Badger Explorer Demonstrator Program.

The final Milestone, Milestone 6, was completed during January 2015. The Steering Committee of the Badger Demonstrator Program approved Milestones 5 and 6 during the Steering Committee meeting on 5<sup>th</sup> February 2015.

With the Demonstrator Program approved and concluded, the remaining sponsor funding, worth of NOK 7.965 million will be released.

All Innovasjon Norge AS funding was released already in Q4 2014.

Remaining funds from the Research Council of Norway, related to the Demonstrator Program, was released in February 2015.

As reported in the Q2 2014 Board of Directors report, China National Petroleum Corporation Drilling Research (CNPC DR) Institute has signed the agreement with BXPL to become the fifth participant in the ongoing BXPL Badger Demonstrator Program. In addition, CNPC DR has expressed a willingness to participate as a full member in the next phase development, The Badger Development Program, which is planned to run from early 2015 to the end of 2017.

Furthermore, CNPC DR has agreed to provide two senior engineers assisting BXPL technical staff in Stavanger during the Development Program. All costs related to the two engineers will be covered by CNPC DR.

During Q4, another area of focus for BXPL has been to prepare for the next and final phase, the Badger Development Program 2015-2017.

BXPL has had good progress in defining the content of the Development Program and the main focus forward is to secure the necessary funding for the Program.

### STATUS OF THE BADGER EXPLORER DEMONSTRATOR PROGRAM

Milestone 5 was the final practical test in the Badger Explorer Demonstrator Program. The final milestone, Milestone 6, contained an evaluation of the Demonstrator Program and a definition of the Scope of Work for the next phase of the development, the Badger Explorer Development Program.

All the main goals of Milestone 5 have been achieved including a full system test of the tool. Modifications and adjustments were implemented where necessary. After the system test, the tool was installed in a custom built test setup to allow horizontal drilling and compaction. The tool drilled through a set of formations, and used drilled cuttings to compact a plug into the same hole.

As expected, the cuttings transport system in the tool caused challenges. The current system is based on pumps and requires fluid to operate. The amount of fluid required to feed the cuttings from the bit and into the first pump stage was higher than expected, and this caused problems for the compaction process. To mitigate this, the drilling and compaction part of the test was performed in two stages, and some fluid was removed from the cuttings mix before entering the compaction system. When the transport system was fed from an external pump, it performed well and in line with the results from earlier tests.

As previously reported, BXPL together with Honeybee Robotics have developed a new transport system, which will be installed in future versions of the Badger tool.

Core samples have been collected from the compacted plug and are currently being analysed to verify the plug parameters.

Milestone 5 has given BXPL valuable information about the tool performance. Combined with information from previous testing, this provides a solid foundation for the next phase.

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





#### THE BADGER EXPLORER DEVELOPMENT PROGRAM

BXPL has developed a proposed agreement for the Badger Explorer Development Program, including the Scope of Work, in close cooperation with our partners. The main milestones of the Program has also been identified and included.

The purpose of the Development Program is to deliver robust, commercially viable technologies for a defined range of operations with the Badger Explorer concept, incorporating all information and feedback from the Demonstrator Program including the work from the ongoing R&D activities.

The drilling module will be optimized to handle completely dry drill cuttings and the self-cleaning bit will be further refined, potentially utilizing Ultra sonic technology, to enhance the drilling operation and to improve the control of the particle size distribution.

The cuttings transport system has over the last year been further developed as a separate R&D project, but will now be an integrated part of the Program. The aim is to develop a transport system that can handle completely dry cutting.

The current tool locomotion has limited depth capabilities and a major part of the Development Program will be to develop a capability of bringing the tool to a total depth of 2000 meters.

Compaction and plug integrity is another main topic under the Development Program. The compaction efficiency and plug characteristics are dependent on the particle size and their distribution in the cuttings. BXPL has executed promising experiments utilizing Ultra Sonic technology to improve the compaction efficiency by altering the cuttings particle size distribution. The continuation of this work will be incorporated in the Program. Furthermore, the plug integrity issue will be addressed and the effectiveness of the plug will be verified by 3<sup>rd</sup> parties.

### INVESTOR RELATIONS

Badger Explorer ASA had 748 shareholders on 31<sup>st</sup> December 2014. Norwegian entities and individuals held 64.7% 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 9 full-time employees as of 31<sup>st</sup> December 2014, compared to 13 employees as of 31<sup>st</sup> December 2013.

### MAIN FIGURES

Revenues for Q4 2014 were NOK 0.00 and NOK 0.00 as of 31<sup>st</sup> December 2014, compared to NOK 0.00 for Q4 2013 and NOK 70,268 as of 31<sup>st</sup> December 2013.

Operating expenses for Q4 2014 were NOK 5.378 million and NOK 21.113 million as of 31<sup>st</sup> December 2014, compared to NOK 5.131 million for Q4 2013 and NOK 19.105 million as of 31<sup>st</sup> December 2013.

EBITDA for Q4 2014 was NOK -5.378 million and NOK -21.113 million as of 31<sup>st</sup> December 2014, compared to NOK -5.131 million for Q4 2013 and NOK -19.036 million as of 31<sup>st</sup> December 2013.

Total development costs of the Badger Explorer project in Q4 2014 were NOK 6.052 million, of which NOK 5.068 million was capitalized. As of 31<sup>st</sup> December 2014, development costs were NOK 27.900 million, of which NOK 24.107 million was capitalized. Total development costs of the Badger Explorer project in Q4 2013 were NOK 11.414 million, of which NOK 10.348 million was capitalized. As of 31<sup>st</sup> December 2013, total development costs were NOK 34.791 million, of which NOK 31.523 million was capitalized.

Capitalized public grants for the Badger Explorer project were NOK -2.558 million for Q4 2014 and NOK -13.568 million as of 31<sup>st</sup> December 2014, compared to NOK -4.808 million for Q4 2013 and NOK -22.375 million as of 31<sup>st</sup> December 2013. All public grants are booked as deductions to the capitalized project costs.

Earnings per share amounted to NOK -0.33 per share for Q4 2014 and NOK -1.26 as of 31<sup>st</sup> December 2014, compared to NOK -0.33 per share for Q4 2013 and NOK -1.31 per share as of 31<sup>st</sup> December 2013.

The cash position at BXPL was NOK 4.351 million as of 31<sup>st</sup> December 2014, compared to NOK 24.943 million as of 31<sup>st</sup> December 2013.

As of 31<sup>st</sup> December 2014, BXPL had a net equity of NOK 78.956 million (equity ratio of 52.4%), compared to NOK 101.628 million as of 31<sup>st</sup> December 2013 (equity ratio of 61.1%).

Net cash flow arising from the operating activities in the continuing operations for Q4 2014 was NOK -4.803 million and NOK -23.714 million as of 31<sup>st</sup> December 2014, compared to NOK -271,377 for Q4 2013 and NOK -17.032 million as of 31<sup>st</sup> December 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 Q4 2014 was NOK -5.068 million and NOK -24.107 million as of 31<sup>st</sup> December 2014, compared to NOK -10.348 million for Q4 2013 and NOK -26.081 million as of 31<sup>st</sup> December 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 Q4 2013 includes cash proceeds from the disposal of the shares in Severn Subsea Technologies Ltd. (SST).

Net cash flow arising from the financing activities in the continuing operations for Q4 2014 was NOK 13.810 million and NOK 27.227 million as of 31<sup>st</sup> December 2014, compared to NOK 17.512 million for Q4 2013 and NOK 50.647 million as of 31<sup>st</sup> December 2013. Net cash inflows in Q4 2014 include payment from CNPC DR, realized exchange gain with respect to the payment received, public grants from both RCN and Innovasjon Norge AS, and 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. Cash outflows include repayment of a credit facility to Sparebanken Vest and interest incurred on the credit facility.

SUMMARY (Unaudited figures in NOK 1000)	Quarters			Year End	
	Q4 2014	Q3 2014	Q4 2013	31.12.2014	31.12.2013
Revenues	0	0	0	0	70
Operating expenses	5 378	5 677	5 131	21 113	19 105
EBITDA	-5 378	-5 677	-5 131	-21 113	-19 036
Earnings per share	-0.33	-0.33	-0.33	-1.26	-1.31
Projects development costs	6 052	6 601	11 414	27 900	34 791
Public grants for projects development	2 558	6 754	4 808	13 568	22 375
Capitalization of development costs and public grants	2 511	-928	5 540	10 539	9 148

Total net changes in cash flow from continuing operations for Q4 2014 were NOK 3.939 million and NOK -20.594 million as of 31<sup>st</sup> December 2014, compared to NOK 6.845 million for Q4 2013 and NOK 7.535 million as of 31<sup>st</sup> December 2013.

Under the Share Purchase Agreement, Severn Glocon acquired another 15% of the shares for consideration of £1 on 15<sup>th</sup> December 2014 giving a realized loss of NOK 156,802. BXPL holds 15% of shares in SST as of 31<sup>st</sup> December 2014. The remaining shares will be acquired in 2016 on an earn-out model basis. The share purchase price for the future transaction is linked to SST's financial performance during 2015. BXPL's fair value assessment of the investment in the shares was set to zero at year end 2014 and impairment of NOK 156,802 has been booked.

## OUTLOOK

The delivery of Milestones 5 and 6 and the conclusion of the Demonstrator Program represent a major reduction of the technical risk related to the development of the Badger Explorer technology.

The main focus for BXPL organization 2015 will be to secure participation of the Development Program from current and possibly new partners, and start the execution of the Program.

Stavanger, 11<sup>th</sup> February 2015  
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 financial statements of Badger Explorer ASA have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

Severn Subsea Technologies Ltd. (SST) 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 SST 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 realised a further loss of NOK 838,350. The results of the subsidiary disposed were included in the statement of income up to the effective date of the disposal. As of 31 December 2014, the BXPL Group consists of Badger Explorer ASA.

From 28 June 2013, 30% of the shares in SST were owned by BXPL. The investment in SST was 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 was recognised according to equity method.

On 15 December 2014, BXPL has completed a sale of 15% of the shares in SST. Loss arising from the partial disposal of investment in the associated company is recognised in the income statement.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If BXPL 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 BXPL are presented separately in the income statement and within equity in the statement of financial position, separately from parent shareholder's equity.

The interim financial statements 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 of 31 December 2013.

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

BXPL's financial statements are presented in NOK. The 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 sale of shares in SST, 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 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 BXPL can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- BXPL's intention to complete and BXPL'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 statement of financial position.

Costs that have been charged as expenses in previous accounting periods are not recognised in the 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 BXPL and the revenue can be reliably 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 capitalised together with the cost.

Contributions from partners are recognised in the statement of financial position under long term liabilities as the contributions are subject to repayment ref note 14 in BXPL 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 31 December 2014.

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



## INCOME STATEMENT

	Quarters				Year End	
Unaudited figures in NOK 1000	Q4 2014	Q3 2014	Q4 2013	Note	31.12.2014	31.12.2013
<b>Revenues</b>						
Other Income	0	0	0		0	70
Public grants	2 558	6 754	4 808	1,2	13 568	22 375
Capitalized public grants	-2 558	-6 754	-4 808	1,2	-13 568	-22 375
<b>Total Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>70</b>
<b>Operating Expenses</b>						
External services for development project	3 102	4 276	8 284		16 520	24 991
Payroll and related costs	5 117	4 060	4 203		17 343	14 909
Other operating expenses	2 227	3 167	2 992		11 357	10 729
Capitalized development costs	-5 068	-5 826	-10 348		-24 107	-31 523
<b>Total Operating Expenses</b>	<b>5 378</b>	<b>5 677</b>	<b>5 131</b>		<b>21 113</b>	<b>19 105</b>
<b>EBITDA</b>	<b>-5 378</b>	<b>-5 677</b>	<b>-5 131</b>		<b>-21 113</b>	<b>-19 036</b>
Depreciation	67	72	92		301	451
<b>Operating profit (loss)</b>	<b>-5 446</b>	<b>-5 749</b>	<b>-5 223</b>		<b>-21 414</b>	<b>-19 486</b>
Net financial income (loss)	-642	-334	-129	3,10	-1 951	15
<b>Profit (loss) before taxes from continuing operations</b>	<b>-6 087</b>	<b>-6 083</b>	<b>-5 352</b>		<b>-23 365</b>	<b>-19 471</b>
Tax on ordinary result from continuing operations	0	0	0		0	0
<b>Net profit (loss) from continuing operations</b>	<b>-6 087</b>	<b>-6 083</b>	<b>-5 352</b>		<b>-23 365</b>	<b>-19 471</b>
<b>Discontinued operations:</b>						
Profit (loss) after tax for the period from discontinued operations	0	0	-838	10	0	-4 344
<b>Net profit (loss)</b>	<b>-6 087</b>	<b>-6 083</b>	<b>-6 190</b>		<b>-23 365</b>	<b>-23 815</b>
Profit (loss) attributable to non-controlling interests	0	0	0		0	54
<b>Profit (loss) attributable to equity holders of the parent</b>	<b>-6 087</b>	<b>-6 083</b>	<b>-6 190</b>		<b>-23 365</b>	<b>-23 869</b>
Earnings per share	-0.33	-0.33	-0.33		-1.26	-1.31
Earnings per share diluted	-0.33	-0.33	-0.33		-1.26	-1.31



## STATEMENT OF FINANCIAL POSITION

<b>ASSETS</b> (Unaudited figures in NOK 1000)	<b>31.12.2014</b>	<b>30.09.2014</b>	<b>Note</b>	<b>31.12.2013</b>
<b>NON-CURRENT ASSETS</b>				
Capitalized development costs	141 325	138 814	2,6	130 785
Patent rights	387	387		387
<b>Total intangible assets</b>	<b>141 711</b>	<b>139 201</b>		<b>131 172</b>
Property, plant & equipment	301	369		573
<b>Total tangible assets</b>	<b>301</b>	<b>369</b>		<b>573</b>
Investments in associates	0	1 124	3,10	2 701
<b>Total investments in associates</b>	<b>0</b>	<b>1 124</b>		<b>2 701</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>142 013</b>	<b>140 693</b>		<b>134 446</b>
<b>CURRENT ASSETS</b>				
Accounts receivables	0	12 600	6	0
Other receivables	4 284	5 794		6 920
<b>Total receivables</b>	<b>4 284</b>	<b>18 394</b>		<b>6 920</b>
<b>Cash and cash equivalents</b>	<b>4 351</b>	<b>412</b>		<b>24 943</b>
<b>TOTAL CURRENT ASSETS</b>	<b>8 634</b>	<b>18 806</b>		<b>31 863</b>
<b>TOTAL ASSETS</b>	<b>150 647</b>	<b>159 499</b>		<b>166 309</b>

<b>EQUITY AND LIABILITIES</b> (Unaudited figures in NOK 1000)	<b>31.12.2014</b>	<b>30.09.2014</b>	<b>Note</b>	<b>31.12.2013</b>
<b>EQUITY</b>				
Share capital	2 317	2 317	3	2 317
Share premium	218 070	218 070	4	218 070
Other paid in capital	3 660	3 504	3	2 966
<b>Total paid in equity</b>	<b>224 047</b>	<b>223 891</b>		<b>223 353</b>
Retained earnings	-145 091	-139 004		-121 725
<b>Total retained earnings</b>	<b>-145 091</b>	<b>-139 004</b>		<b>-121 725</b>
<b>TOTAL EQUITY</b>	<b>78 956</b>	<b>84 887</b>		<b>101 628</b>
<b>LIABILITIES</b>				
Capitalized grants	66 520	66 520	6	53 920
<b>Total non-current liabilities</b>	<b>66 520</b>	<b>66 520</b>		<b>53 920</b>
Accounts payables	2 394	3 178	3,8	4 401
Public duties payables	1 650	688		3 104
Debt financial institutions	0	2 827	11	0
Other short term liabilities	1 126	1 399		3 255
<b>Total current liabilities</b>	<b>5 170</b>	<b>8 091</b>		<b>10 761</b>
<b>TOTAL LIABILITIES</b>	<b>71 690</b>	<b>74 611</b>		<b>64 681</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>150 647</b>	<b>159 499</b>		<b>166 309</b>

## STATEMENT OF CASH FLOW

Unaudited figures in NOK 1000	Quarters			Note	Year End	
	Q4 2014	Q3 2014	Q4 2013		31.12.2014	31.12.2013
Contribution from operations*	-5 223	-5 506	-5 004		-20 419	-20 597
Change in accounts receivables and accounts payables	-784	-1 363	913	3,8	-2 007	2 487
Change in other receivables and payables	1 203	889	3 820		-1 287	1 079
Net cash flow from operating activities	-4 803	-5 980	-271		-23 714	-17 032
Capitalization of development cost	-5 068	-5 826	-10 348	2	-24 107	-31 523
Sale of shares in subsidiaries	0	0	0	3	0	5 442
Net cash flow from investment activities	-5 068	-5 826	-10 348		-24 107	-26 081
Public grants	3 554	6 921	2 267	1	13 908	20 343
Contribution from industry partners	12 600	0	15 200	6	12 600	29 920
Interest received	515	11	46		648	387
Interest paid	-140	-56	-1		-303	-3
Other financial income	108	91	0		375	0
Proceeds from borrowings financial institution	-2 827	2 827	0	11	0	0
Net cash flow from financing activities	13 810	9 793	17 512		27 227	50 647
<b>Total net changes in cash flow - continuing operations</b>	<b>3 939</b>	<b>-2 013</b>	<b>6 845</b>		<b>-20 594</b>	<b>7 535</b>
<b>Total net changes in cash flow - discontinued operations</b>	<b>0</b>	<b>0</b>	<b>838</b>	<b>10</b>	<b>0</b>	<b>-199</b>
Net foreign translation differences	0	0	0		0	0
Cash and cash equivalents beginning of period	412	2 425	17 259		24 943	17 608
<b>Cash and cash equivalents end of period</b>	<b>4 351</b>	<b>412</b>	<b>24 943</b>		<b>4 351</b>	<b>24 943</b>
Profit (loss) attributable to equity holders of the Company	-6 087	-6 083	-5 352		-23 366	-19 471
Profit (loss) attributable to non-controlling interests	0	0	0		0	54
Employee options	156	171	110	5	694	-1 616
Depreciation	67	72	92		301	451
Financial income	-623	-101	-349		-1 053	-735
Financial expenses	140	56	238		304	339
Share of (profit) / loss of associates	810	379	258	3,10	2 387	380
Impairment of financial assets	157	0	0	10	157	0
Loss on sale of associate and shares	157	0	0	3,10	157	0
<b>*Contribution from operations before tax</b>	<b>-5 223</b>	<b>-5 506</b>	<b>-5 004</b>		<b>-20 419</b>	<b>-20 597</b>

## STATEMENT OF CHANGE IN EQUITY

Unaudited figures in NOK 1000

	Note	Share capital	Share pre- mium	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					-23 365	0	-23 365
Option plan payment	5			694			694
Equity as of 31.12.2014		2 317	218 070	3 660	-145 091	0	78 956

## STATEMENT OF COMPREHENSIVE INCOME

Unaudited figures in NOK 1000

	Quarters			Year End	
	Q4 2014	Q3 2014	Q4 2013	31.12.2014	31.12.2013
<b>Total comprehensive income</b>					
Profit (loss) for the year (period)	-6 087	-6 083	-6 190	-23 365	-23 815
Other comprehensive income - items that will later be reclassified to profit and loss					
Translation differences	0	0	0	0	0
<b>Comprehensive income at end of period</b>	<b>-6 087</b>	<b>-6 083</b>	<b>-6 190</b>	<b>-23 365</b>	<b>-23 815</b>

	Quarters			Year End	
	Q4 2014	Q3 2014	Q4 2013	31.12.2014	31.12.2013
<b>Total comprehensive income attributable to:</b>					
Equity holders of the parent	-6 087	-6 083	-6 190	-23 365	-23 869
Non-controlling interest	0	0	0	0	54
<b>Total comprehensive income</b>	<b>-6 087</b>	<b>-6 083</b>	<b>-6 190</b>	<b>-23 365</b>	<b>-23 815</b>

### 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 Q4 2014, BXPL received NOK 1.554 million from Skattefunn. Other contributors to the Demonstrator Program include Innovation Norway, which awarded NOK 2 million public grant in December 2014.

In 2014, RCN has through its PETROMAKS-program granted NOK 3.543 million to the development of the Badger autonomous drilling tool. Through the PETROMAKS2-program, RCN granted NOK 2.289 million funding for the development of HPHT ultrasonic system. Innovation Norway awarded a public grant of NOK 6 million during July - December 2014.

2. The public grants and all project development costs of BXPL, related to the Badger Explorer Demonstrator Program, are capitalized in accordance with the IFRS regulations, except of NOK 3.793 million as at 31 December 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. (formerly known as 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 Income Statement up to the effective date of the disposal. As of 31 December 2014, the BXPL Group consists of Badger Explorer ASA.

From 28 June 2013, 30% of the shares in SST were owned by BXPL. The investment in SST was 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 was recognised according to equity method.

On 15 December 2014, Severn Glocon acquired another 15% of the shares in SST. Loss arising from the partial disposal of investment in the associated company is recognised in the Income Statement.

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 31 December 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 60,000 share options forfeited. The remaining 153,000 share options were "out of the money" as of 31 December 2014.

The share options agreements are equity-based incentive compensation. The employee share options are recognised as an expense in the Income Statement under "Payroll and related costs" and in the 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 could be exercised at any time from the date of grant until 31 December 2014. The share options expired as of 31 December 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 31 December 2014.

6. BXPL 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 of NOK 12.600 million. The contribution of NOK 13.100 million was received in November 2014. BXPL realized NOK 500,066 of exchange gain with respect to the payment received. The contribution is recognised as capitalized grants in the Statement of Financial Position.

7. Deferred tax asset has not been recognised in the 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	31.12.2014	31.12.2013
Purchases of services*	4 411	1 280

\* 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 1.764 million were made to Dalvin Rådgivning AS in respect of performed consultancy services and NOK 27,311 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 2.268 million in respect of performed consultancy services and NOK 352,385 related to travel expenses.

Transactions with Severn Subsea Technologies Ltd.	31.12.2014	31.12.2013
Accounts payable**	16	1 886
Purchased services**	1 871	13 173
Loan to associate	0	2 429

\*\*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**

	<b>31.12.2014</b>	<b>31.12.2013</b>
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	30 000
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>1 150 962</b>
% of total shares	6.2 %	6.2 %

**9. Fair value hierarchy**

As at 31 December 2014, BXPL holds financial assets of the 15% shares in SST at fair value in the Statement of Financial Position.

**10. Investment in associate**

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. The partial divestment of shares in 2013 was treated as discontinued operations in accordance with IFRS 5.

Under the Agreement, Severn Glocon acquired another 15% of the shares for consideration of £1 on 15 December 2014 giving a loss of NOK 156,802. BXPL holds 15% of shares in SST as of 31 December 2014. The remaining shares will be acquired in the end of 2015 on an earn-out model basis. The share purchase price for the future transaction is linked to SST's financial performance during 2015. BXPL's fair value assessment of the investment in the shares was set to zero at year end 2014 and impairment of NOK 156,802 has been booked.

**Carrying amount movements in the Statement of Financial Position of BXPL for the period ended 31 December 2014:**

Carrying amount of 30% interest retained as of 31 December 2013	2 701
30% shares of net result in the associate for the period 1 January - 15 December 2014	-2 387
Sale of 15% of shares on 15 December 2014	-157
Impairment of the remaining 15 % of shares in SST	-157
Closing balance for the period ended 31 December 2014	0



#### 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. Credit of NOK 2.827 million has been repaid as of 30 September 2014. The facility has not been used during Q4 2014. Interest incurred of NOK 85,018 have been repaid as of 31 December 2014.

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