



**BADGER**  
EXPLORER



Annual Report 2015



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## Message from the CEO



2015 has been a challenging year, but important steps towards a commercial Badger tool have been taken.

On the 5<sup>th</sup> of February 2015, the Steering Committee of the Badger Demonstrator Program concluded the Demonstrator Program by approving Milestones 5 and 6. The milestones included a full-scale drilling test with the 125 Demonstrator tool that provided Badger Explorer with valuable information about tool performance and remaining challenges.

2015 has been the first year of the Badger Explorer Development Program (DP). The DP represents a change in strategy for Badger Explorer, where the main difference from previous programs is that Badger Explorer will aim to solve specific challenges with the concept rather than building full scale Badger tools. Lessons learned from building and testing the tools in previous programs have been instrumental in increasing the understanding of remaining challenges, and outlining the scope of work for the DP.

Badger Explorer will continue working with our suppliers and partners whose competence is key in solving the challenges at hand. Badger Explorer will in addition to internal R&D manage external projects developing technologies and systems for the Badger concept, capture and use the results, before ultimately combining them into a complete Badger tool. This way of working allows us to utilize limited resources in the most efficient way, and has proven successful in 2015.

The dramatic drop in oil price have led to a re-structuring of the DP, as BXPL has experienced a reduced ability from Oil Companies to support technology development ventures like the Badger Project. In order to adjust to the new business climate, BXPL has implemented a large cost saving program across the organization, including making staff redundant, reducing salaries for senior management and other cost cuts. Badger Explorer has reduced the operating cost of the company by over 40 %. A significant event in 2015 was Statoil joining the DP on 8<sup>th</sup> June 2015. The main development areas agreed with Statoil were compaction and cuttings transport systems, including technical qualification of these systems.

As part of the Norwegian Research Council Petromaks2 supported program, HPHT ultrasonic transducers were successfully qualified in December 2015. This represents a breakthrough in solving one of the main challenges with the Badger concept, the compaction system.

Badger Explorer also developed and started testing a novel cuttings transport system. This system has been developed together with Honeybee Robotics (HBR).

The system is based on previous work between Badger Explorer and HBR, and will solve another main challenge with the Badger concept.

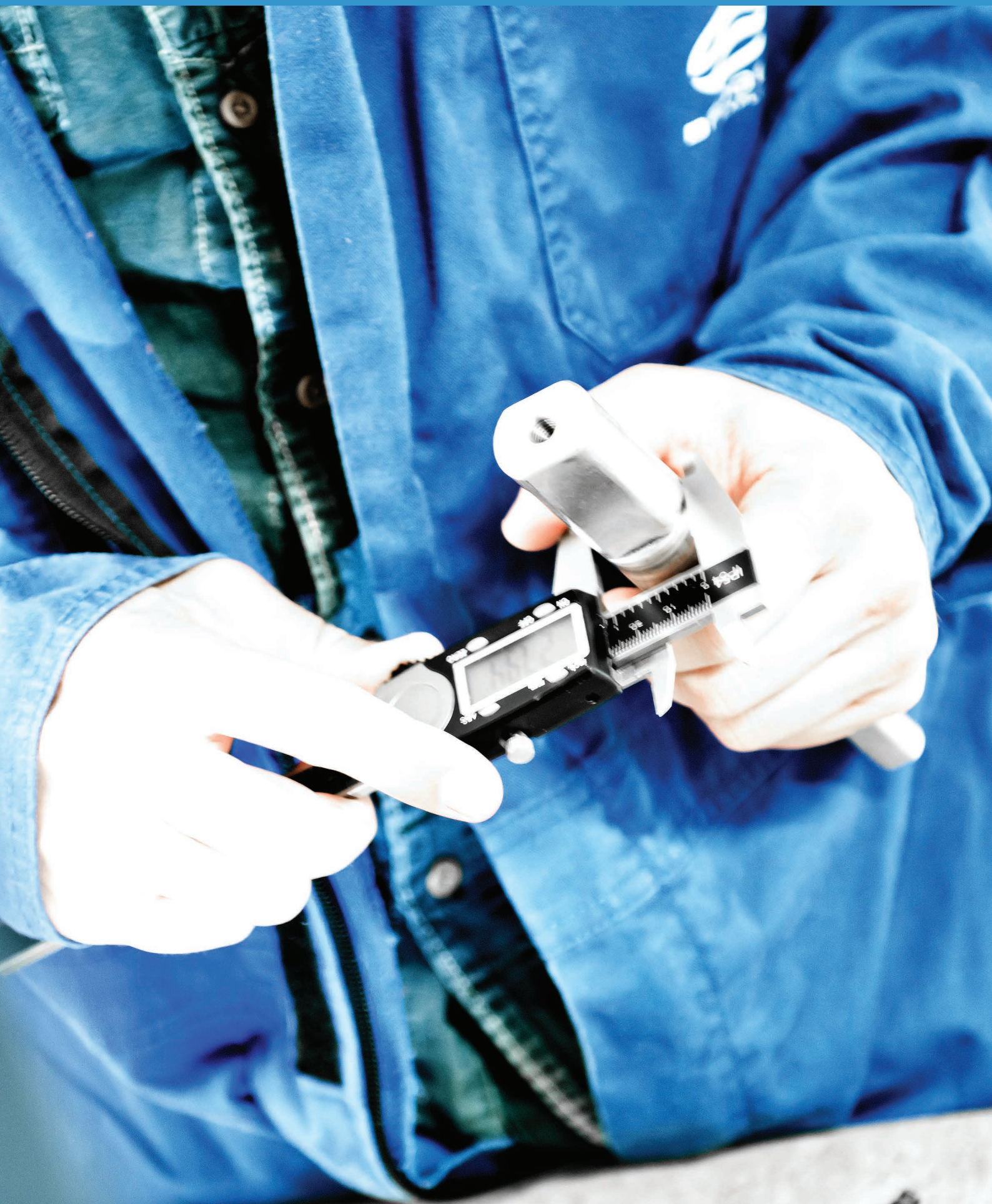
Progress have also been made in negotiations with CNPC-DR about joining the DP and Badger Explorer and CNPC-DR have been in close dialogue through 2015. The ambition is to finalize negotiations as soon as possible. A Memorandum of Understanding was signed 22<sup>nd</sup> September confirming this.

Badger Explorer have also been in dialogue and negotiations with oil service companies to accelerate development of key technologies in the Badger concept. Such a partnership will strengthen the team working on the technical challenges, reduce the cost and accelerate the development.

## Key figures

	2015	2014
<b>Selected items from income statement (1000 NOK)</b>		
Total revenues	0	0
Government grants	6 574	14 675
Capitalized development costs	-14 124	-24 107
Total operating expenses	12 807	21 414
EBIT	-12 807	-21 414
Net profit (loss) for the year	-13 257	-23 365
Profit (loss) attributable to equity holders of the company	-13 257	-23 365
Earnings per share (NOK)	-0.72	-1.26
<b>Selected items from statement of financial position (1000 NOK)</b>		
Capitalized development costs	147 768	140 218
Total non-current assets	148 255	140 906
Total current assets	4 216	9 741
Total assets	152 471	150 647
Total equity	66 207	78 956
Equity ratio	43.4 %	52.4 %
Total liabilities	86 264	71 690
<b>Selected items from statement of cash flow (1000 NOK)</b>		
Net cash flow from operating activities	-12 351	-23 713
Net cash flow from investment activities	-14 124	-24 107
Net cash flow from financing activities	22 711	27 227
Total net changes in cash flow	-3 765	-20 593
Cash and cash equivalents at end of period	586	4 351
<b>Average number of employees</b>	<b>8</b>	<b>12</b>







## Shareholder information

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

### Shareholder policy

Badger Explorer ASA continues to further develop the "Badger Explorer", a revolutionary technology for exploration and verification of hydrocarbon prospects, without the risks, cost and complexity of drilling wells with a rig. The Badger Explorer tool acquires exploration data as it drills, and once installed at its target depth, can continue to monitor subsurface parameters to enhance development and production activities.

The Company has a long-term shareholder policy to maximize the shareholders' return on investments over time through a combination of dividends and increase in the share price/value.

BXPL provides its shareholders, Oslo Børs/Oslo Stock Exchange and the financial markets generally (through Oslo Børs'/Oslo Stock Exchange's Distribution Network) with timely and accurate information. Such information takes the form of annual reports, quarterly interim reports, stock exchange notifications and investor presentations as applicable. BXPL communicates its long-term potential, including its strategy, value drivers and risk factors, maintains an open and proactive investor relations policy and a best-practice website, and gives presentations regularly in connection with annual and interim results in Oslo and Stavanger, Norway. BXPL has one class of shares and is dedicated to apply equal treatment to all shareholders. Each share carries one vote at the Company's General Meetings.

### Dividends and earnings per share

BXPL's dividend policy aims to yield a competitive return on invested capital to the shareholders through a combination of dividends and share price development. The Company has been in the development phase and has not yet reached commercial status, therefore no dividend has so far been proposed.

### Share price trends during 2015

By year end the number of outstanding BXPL shares amounted to 18,537,288, each with a nominal value of NOK 0.125. During 2015, the share price varied between NOK 10.00 (highest) and NOK 1.02 (lowest). The share price was at its highest on 9<sup>th</sup> February 2015 and at its lowest on 28<sup>th</sup> December 2015. On the last trading day of 2015 the share price was at NOK 1.02.

### Share ownership

Badger Explorer ASA had 793 shareholders on 31<sup>st</sup> December 2015 (compared to 747 shareholders as of 31<sup>st</sup> December 2014). During 2015, the number of shareholders increased approximately by 6.16%. Shareholders domiciled outside Norway held 35.6% of the total number of shares.

### Largest shareholders

The three largest shareholders were Deutsche Bank AG S/A Prime Brokerage (UK), TTC Invest AS (Norway) and Invesco Perp EUR Small Comp FD BNY Mellon SA/NV (Belgium) holding respectively 15.3%, 7.0% and 6.6% of the number of outstanding shares. As of 31<sup>st</sup> December 2015, the 20 largest shareholders held 60.5% of the all outstanding shares. See also note 11.

The table below sets out the 20 largest shareholders as of 31<sup>st</sup> December 2015:

Name	Holding	Percentage
DEUTSCHE BANK AG S/A PRIME BROKERAGE	2,829,997	15.27
TTC INVEST AS	1,306,862	7.04
INVESCO PERP EUR SMA BNY MELLON SA/NV	1,225,389	6.61
EUROCLEAR BANK S.A.	923,924	4.98
HOLBERG NORGE	808,135	4.36
SKANDINAVISKA ENSKILDA BANKEN S.A	615,000	3.32
ARGENTUM FONDSINVEST	523,145	2.82
DALVIN RÅDGIVNING AS	426,872	2.30
MACAMA AS	355,514	1.92
ANØY INVEST DA	278,800	1.50
ÅM KNUT	242,600	1.31
GJENSIDIGE FORSIKRING JP MORGAN EUROPE LTD	226,472	1.22
DREVDAL KJELL ERIK	222,600	1.20
NILSHOLMEN INVESTERING AS	209,222	1.13
MP PENSJON PK	208,700	1.13
ESPELID KARLSTEIN JOHAN	170,000	0.92
STOKKA SIGMUND	168,693	0.91
BARRA ØYSTEIN JOHANNES	155,748	0.84
BAKKE STEINAR	155,000	0.84
ØVREBOTTEN SVEIN	155,000	0.84
<b>TOTAL</b>	<b>11,207,673</b>	<b>60.46</b>

### Share option program

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 results in 2016 and 2017. Upon exercise of options, the option holder shall pay the Company a price of NOK 7.51 per option share. If on the exercise day the market price of the BXPL shares exceeds NOK 50, the exercise price shall be increased by an amount equivalent to 8% of the market price of the BXPL shares deducting NOK 50.

Former CEO Steinar Bakke has been granted 370,000 share options at a strike price of NOK 6.50. 185,000 shares options will vest on the date of the publication of BXPL's Q4 2015 report. A further 185,000 shares options will vest on the date of the publication of BXPL's H1/Q2 2017 report. The exercise of fully vested shares options is at the sole discretion of the option holder.

On 15 January 2016, the new CEO Øystein Larsen has been granted 370,000 share options at a strike price of NOK 1.50. 185,000 shares options will vest on the date of the publication of BXPL's Q4 2017 report. A further 185,000 shares options will vest on the date of the publication of BXPL's Q4 2018 report. Upon exercise of the options, the option holder shall pay to the Company a price of NOK 1.50 per option share. If on the exercise day the market price of BXPL's shares is exceeding NOK 25, the exercise price shall be increased by an amount equivalent to 8% of the market price deducting NOK 25. The exercise of fully vested shares options is at the sole discretion of the option holder.

No share options were exercised during 2015.



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

As of 31<sup>st</sup> December 2015, the following members of the Company's Board of Directors held BXPL shares:

Name	Holding	Percentage
Marcus Hansson through one nominee account and one ordinary account - Skandinaviska Enskilda Banken S.A. Luxembourg and Arctic Securities Oslo	576,668	3.11
Tone Kvåle (resigned as member of the Board on 31 March 2015)	5,000	0.03
<b>Total</b>	<b>581,668</b>	<b>3.14</b>

As of 31<sup>st</sup> December 2015, the following members of the Company's Management held shares and share options:

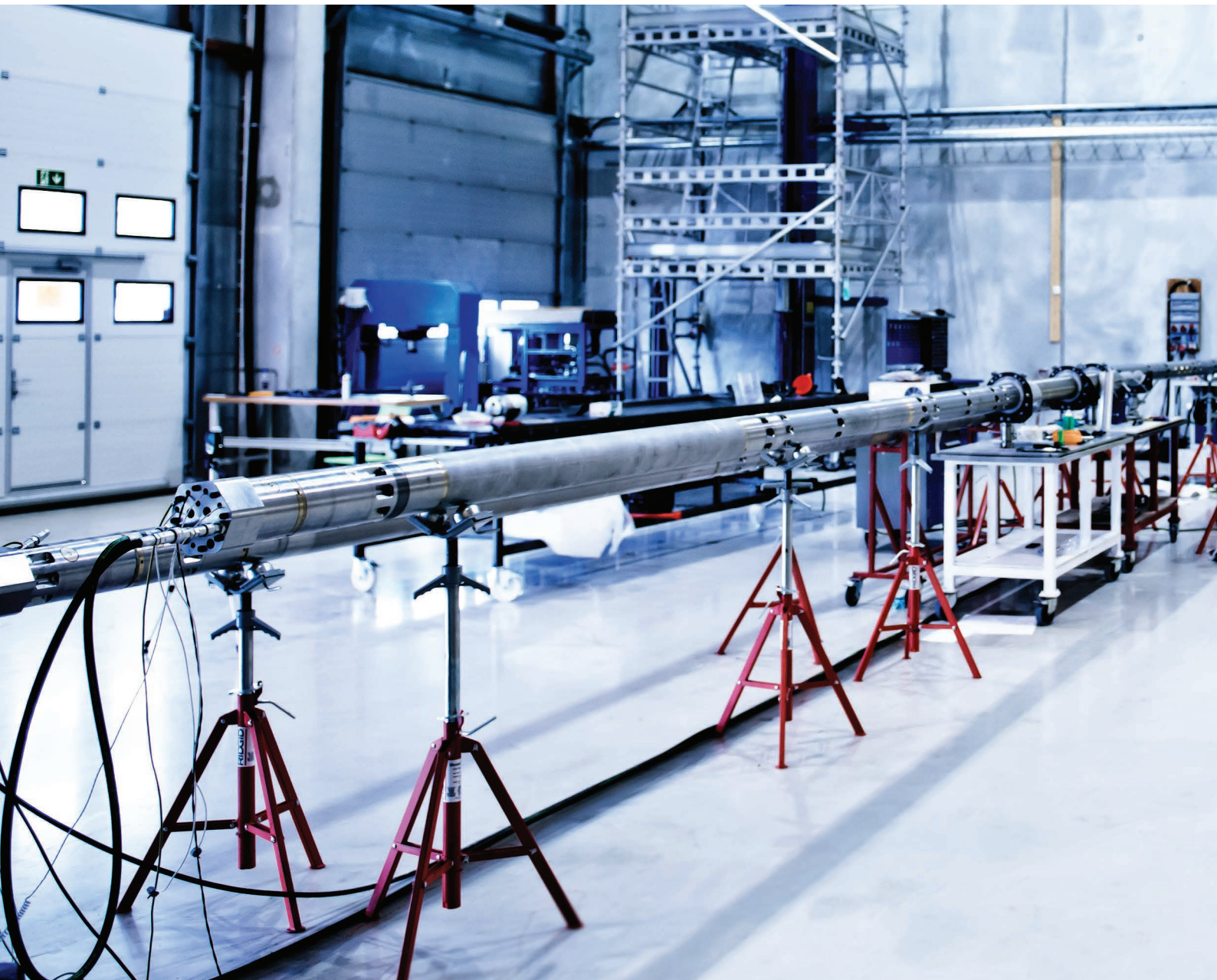
Name	Shares	Share options
CTO Øystein Larsen (new CEO from 20 January 2016)	0	24,000
CEO Steinar Bakke (Senior Advisor from 20 January 2016)	155,000	370,000
CFO Gunnar Dolven through one ordinary account and through Dalvin Rådgivning AS	434,872	0
Sr. VP Dev. & Strategy Kjell Markman through Nilsholmen AS and through Nilsholmen Investering AS	229,422	0
<b>Total</b>	<b>819,294</b>	<b>394,000</b>

## 2016 Financial events

BXPL intends to release its quarterly reports for 2016 and aims at holding its quarterly investor presentations on the following dates:

25 <sup>th</sup> May 2016:	<a href="#">Q1 2016 Report</a>
7 <sup>th</sup> September 2016:	<a href="#">H1/Q2 2016 Report</a>
2 <sup>nd</sup> November 2016:	<a href="#">Q3 2016 Report</a>

The Annual General Meeting for the fiscal year 2015 will be held on Tuesday, 14th June 2016.



# Corporate governance policy

Badger Explorer ASA's Board of Directors approved this updated Corporate Governance Policy on 24<sup>th</sup> February 2016.

## 1 INTRODUCTION

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

Badger Explorer ASA ("BXPL" or "Company") is a Norwegian public limited company which shares are listed on the Oslo Børs/Oslo Stock Exchange (Oslo Axess list) and it is therefore subject to the corporate governance requirements as set out in the Norwegian Code of Practice for Corporate Governance. BXPL works according to the Norwegian Code of Practice for Corporate Governance dated 30<sup>th</sup> October 2014 ([www.nues.no](http://www.nues.no)). Where BXPL does not fully comply with the recommendations, an explanation or comment is given.

Furthermore Oslo Børs/Oslo Stock Exchange prescribes that companies listed on the Oslo Børs/Oslo Stock Exchange must publish a report in their annual report on the company's corporate governance.

BXPL aims to have effective systems in place for communication, monitoring, accountability and incentives that enhance the market value, corporate profit, long-term strength, continuity and overall success of the business of BXPL, and strengthen the confidence amongst its shareholders.

## 2 REPORTING ON CORPORATE GOVERNANCE

Badger Explorer ASA's Board of Directors approves this Corporate Governance Policy annually, which can also be found on its website ([www.bxpl.com](http://www.bxpl.com)) and is included in the annual report.

The Company's basic corporate values are incorporated in the Company's management system. The Board of Directors has implemented ethical guidelines and a corporate social responsibility policy, which are reviewed and re-issued annually.

## 3 BUSINESS

In the Association BXPL's business is described as follows:

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

The Company's objectives and principal strategies are described in the annual report.

## 4 EQUITY AND DIVIDENDS

The development of the Company's equity up to 31<sup>st</sup> December 2015 is described in the "Statement of change in equity" in the financial statements of the annual report.

BXPL's dividend policy aims to yield a competitive return of invested capital to the shareholders through a combination of dividends and share price development. Because the Company has been in the development phase and has not yet reached commercial status, no dividend has therefore been proposed.

On 5<sup>th</sup> May 2015 the Annual General Meeting ("AGM") passed two Board authorizations.

The first proxy grants the Board of Directors mandate to increase the Company's share capital by up to NOK 115,858 through the issuance of up to 926,864 shares of nominal value NOK 0.125. This mandate may be used to issue shares to employees, Directors



and others connected with the Company as a part of the Company's share incentive scheme. The shareholder's preferential rights according to the Public Limited Liability Companies Act section 10-4 may be waived. Share issues may also be made against contributions in kind.

The second proxy authorizes the Board of Directors to increase the Company's share capital by up to NOK 231,716 through the issuance of up to 1,853,728 shares of nominal value NOK 0.125 to existing shareholders and external investors in connection with the Company's expansion, development and/or a strategic acquisition. The shareholder's preferential rights according to the Public Limited Liability Companies Act section 10-4 may be waived. Share issues may also be made against contributions in kind. The authorization is also valid in the event of a merger in accordance with the Public Limited Liability Companies Act Section 13-5 and may also be used when the Company has agreed payment in shares in connection with an acquisition etc.

Both Board authorizations expire at the latest by 30th June 2016. The authorizations are in accordance with Norwegian Code of Practice for Corporate Governance.

## 5 EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

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

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

If a transaction between the Company and a shareholder of the Company, a shareholder's parent company, a member of the Board of Directors or a member of executive personnel (or related parties to such persons) is considered to be material in accordance with the Norwegian Code of Practice for Corporate Governance, the Board will obtain a valuation from an independent third party. This will not apply if the GM's approval for such transactions is required according to the Norwegian Public Limited Companies Act §3-8.

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

### Deviation from the Norwegian Code of Practice for Corporate Governance:

The shareholders' pre-emptive rights are exempted because the Company wishes to be able to (i) use share issues for its employees, Directors and others connected with the Company as a part of the Company's share incentive scheme and (ii) issue shares towards certain specifically chosen institutional investors or others if required or desired in conjunction with the Company's expansion, development and/or strategic acquisitions.

## 6 FREELY NEGOTIABLE SHARES

All BXPL shares carry equal rights and are freely negotiable. Each share represents one vote at the General Meeting. The nominal value per share amounts to NOK 0.125. There are no restrictions regarding transferability in the Company's Articles of Association.

## 7 GENERAL MEETINGS ("GM")

The shareholders exercise the highest authority in BXPL through GMs.

In 2016 the Annual General Meeting of BXPL will be held on 14th June. The Company's financial calendar has been published in a notice to the Oslo Stock Exchange and is available on BXPL's website. The AGM shall approve the annual accounts, the annual report, distribution of dividend, and otherwise make such resolutions as required under the Corporate Governance Policy and the applicable law.

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

The notice shall also include information on the procedure of representation through proxy, as well as a proxy that allows giving separate voting instructions for each matter to be considered by the General Meeting and for each candidate nominated for election. The Company will nominate a person who will be available to vote on the shareholder's behalf if the shareholder has not appointed a proxy.

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

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

The GM's chairperson shall be independent. The Company's Board and the chairperson of the GM shall ensure that the shareholders vote separately for each candidate nominated for a corporate body.

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

The Annual General Meeting for the fiscal year 2014 was held in Stavanger on 5<sup>th</sup> May 2015 where 45.76% of all shares were represented.

#### Deviation from the Norwegian Code of Practice for Corporate Governance:

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

## **8 NOMINATION COMMITTEE**

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

The Nomination Committee proposes to the GM candidates for election to the Board. The composition of the Board of Directors should reflect the provisions of the Company's Corporate Governance Policy, commitment to shareholder return, independence and experience in relevant sectors (technology and business development, financing and accounting, disclosure and regulatory, etc). The Nomination Committee also proposes the remuneration to be paid to the members of the Board of Directors.

The Nomination Committee's recommendations shall include justification as to how the recommendations take into account the shareholder interests and the Company's requirements. The following information about the proposed candidates, in particular each person's age, education, business experience, term of appointment to the Board (if applicable), ownership interest in the

Company, independence, any assignments (other than the proposed Directorship) for the Company and material appointments with other companies and organizations will be disclosed. In the event that the Nomination Committee recommends re-electing current Directors, the recommendation will include information on when the Directors were appointed to the Board and their attendance records.

The Nomination Committee shall elect its own chairperson according to the Company's Articles of Association. Meetings of the Nomination Committee shall be convened when deemed necessary by any of its members to adequately fulfill its assigned duties. Notice of a meeting shall be issued by the chairperson of the Nomination Committee no later than one week prior to the meeting, unless all members approve a shorter notice period.

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

The Nomination Committee consists of:

Rolf E. Ahlqvist (chairperson) - re-elected until AGM in 2016  
 Richard Urbanski - elected until AGM in 2016  
 Knut Åm - re-elected until AGM in 2016

All members of the Nomination Committee are considered independent of the Board of Directors.

Deviation from the Norwegian Code of Practice for Corporate Governance:

The Company's Articles of Association regulate the election of the chairperson of the Nomination Committee. According to §6 of the Articles of Association of Badger Explorer ASA the Nomination Committee elects its own chairperson.

The Norwegian Code of Practice for Corporate Governance requires guidelines regarding the Nomination Committee's duties to be set out by the General Meeting. At BXPL, the Committee itself sets out its duties in accordance with the duties presented in chapter 8 of the Company's Corporate Governance Policy.

## 9 BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

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

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

The members of the Board of Directors are:

Marcus Hansson (Chairman) - re-elected until AGM in 2016  
 Belinda T. Ingebrigtsen - elected until AGM in 2017  
 Birte Noer Borrevik - elected until AGM in 2016  
 David S. Ottesen - elected until AGM in 2017

Mr. Hansson was elected chairman of the Board of Directors at the AGM held on 27<sup>th</sup> April 2011.

All members of the Company's Board of Directors are considered independent according to the Norwegian Code of Practice for Corporate Governance. Detailed information on the individual Board member can be found in the Company's website ([www.bxpl.com](http://www.bxpl.com)) and in the Annual Report.

Marcus Hansson owns a total of 576,668 shares (through one account with Arctic Securities Oslo 11,668 shares and through one nominee account - Skandinaviska Enskilda Banken S.A. Luxembourg 565,000 shares) which represents a total of 3.11% as of 24<sup>th</sup> February 2016.

According to the Norwegian Public Limited Companies Act § 6-35 and the Norwegian Code of Practice for Corporate Governance



a company with more than 200 employees is required to elect a corporate assembly. The Company has less than 200 employees and has therefore not yet elected a corporate assembly.

## 10 THE WORK OF THE BOARD OF DIRECTORS

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

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

To fulfill its duties and responsibilities, the Board has full access to the Company's relevant information. The Board shall also consider for example obtaining such advice, opinions and reports from third party advisors as it deems necessary to fulfill its responsibilities.

The "Rules of Procedure for the Board of Directors of Badger Explorer ASA and the Relation to CEO" were approved by the Board on 25<sup>th</sup> March 2015 and were implemented.

The Board of Directors has appointed an Audit Committee. Marcus Hansson is a member of said committee.

The Board of Directors evaluates its own performance and expertise once a year.

The Board of Directors held 5 ordinary Board meetings and 4 extraordinary Board meeting during the fiscal year 2015.

### Deviation from the Norwegian Code of Practice for Corporate Governance:

The Norwegian Code of Practice for Corporate Governance requires the Board of Directors to consider appointing a remuneration committee. At BXPL, the Board itself prepares all matters relating to compensation paid to the Company's executive management.

## 11 RISK MANAGEMENT AND INTERNAL CONTROL

BXPL has implemented internal control and risk management systems appropriate to the size and nature of the Company's activities. The Company's core values, ethical guidelines and the corporate social responsibility policy are incorporated in the internal control and risk management systems.

The Board of Directors carries out an annual review of the control and risk management systems and the Company's most significant exposures.

In the annual report, the Board of Directors describes the main features of the Company's internal control and risk management systems in relation to the Company's financial reporting.

## 12 REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of the members of the Board of Directors reflects the Board's responsibilities, expertise, the committed time and the complexity of the Company's activities.

The Board Members' remuneration (form and amount) will be reviewed annually by the Nomination Committee and is not linked to the Company's performance. It is the Nomination Committee's responsibility to prepare a proposal for the Annual General Meeting regarding the above mentioned remuneration.

#### Deviation from the Norwegian Code of Practice for Corporate Governance:

At the Annual General Meeting for the fiscal year 2014, held on 5<sup>th</sup> May 2015, the GM provided the Board with a proxy to enter into agreements with close associates for the period from 5<sup>th</sup> May 2015 until the next Annual General Meeting to be held in 2016, but in no event longer than until 30<sup>th</sup> June 2016. The remuneration is limited to NOK 1,500 per hour. The total remuneration for such agreements shall not exceed the amount of NOK 250,000 for the time period set above. Time schedule and detailed specifications of duties shall be approved by the Board.

### 13 REMUNERATION OF THE EXECUTIVE PERSONNEL

The Board of Directors establishes, as required by law, guidelines for the remuneration of the members of the executive personnel. The AGM will vote on these guidelines which help ensure convergence of the financial interest of the executive personnel and the shareholders.

The guidelines for remuneration of the executive personnel are published in the Annual Report 2015 in note 6.

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

As of 24<sup>th</sup> February 2016 the executive personnel's holdings of shares and share options are the following:

Name	Shares	Share options
Steinar Bakke	200,473	370,000
Gunnar Dolven	8,000	0
Gunnar Dolven through Dalvin Rådgivning	426,872	0
Øystein Larsen	0	370,000
Kjell Markman	0	0
Kjell Markman through Nilsholmen AS	20,200	0
Kjell Markman through Nilsholmen Investering AS	209,222	0
<b>Total</b>	<b>864,767</b>	<b>740,000</b>

### 14 INFORMATION AND COMMUNICATIONS

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

The Company's current financial calendar with dates of important events including the Annual General Meeting, publishing of quarterly reports and its presentations, etc. are accessible for all shareholders on [www.oslobors.no](http://www.oslobors.no) and on the Company's website [www.bxpl.com](http://www.bxpl.com). Subscription to news about BXPL can be made on the Company's website ([www.bxpl.com](http://www.bxpl.com)).

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

related parties thereof, or any other company in the Badger Explorer ASA.

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

BXPL will disclose all material information to all recipients equally in terms of timing and content.

## 15 TAKEOVERS

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

Deviation from the Norwegian Code of Practice for Corporate Governance:

The Company has not yet implemented guidelines in case of a takeover. Any bid will be dealt with by the Board of Directors in accordance with applicable laws and regulations, the Norwegian Code of Practice for Corporate Governance and based on their recommendation the shareholders' approval will be requested.

## 16 AUDITOR

Under Norwegian law the auditor of the Company (the "Auditor") is elected by the shareholders in a GM. The current Auditor serves until a new auditor has been elected.

The Auditor participates in meeting(s) of the Board that deal with the annual accounts as well as the General Meetings. At these meetings the Auditor reviews any variations in the accounting principles applied, comments on material accounting estimates and issues of special interest to the Auditor, including possible disagreements between the Auditor and the management.

At least once a year the Auditor and the Board of Directors meet without any members of the Company's executive personnel present.

The Auditor presents annually to the Audit Committee/Board of Directors the main features of its plan for the audit of the Company, as well as a review of the Company's internal control procedures.

The Board of Directors established guidelines in respect to the use of the auditor by the Company's executive personnel for services other than the audit.

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

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





# Ethical and corporate social responsibility policy

## 1 GENERAL

The purpose of this policy is to provide information to all our stakeholders about Badger Explorer ASA's ("BXPL" or "Company") approach to ethical and corporate social responsibility and how we as a Company propose to work towards achieving it. BXPL is committed to enhancing shareholder value in an ethical and socially responsible manner.

By implementing this policy, the Company aims to be responsible and an exemplar of good practice. Honesty, integrity and respect for people underpin everything we as employees do, and are the foundation of the Company's business practice. We are judged by how we act and the Company's reputation will be upheld if each one of us acts in accordance with the law and the Company's social responsibility and ethical standards set out herein. The Company's reputation and future success are critically dependent on compliance, not just with the law, but also with high ethical and social standards. A reputation for integrity is a priceless asset. This policy is a further commitment to integrity for all of us and will help to safeguard that asset.

This document applies to staff, Board members, temporary employees, consultants and any person or entity acting on behalf of Badger Explorer ASA. We encourage our business partners to strive for similar performance.

We are committed to continuous improvement in our corporate social and ethical responsibility and the Board of Directors and the Company will therefore review this policy regularly.

This policy was approved by the Board of Directors on 24<sup>th</sup> February 2016 and shall apply until revised and re-approved.

## 2 BUSINESS PRACTICE

### 2.1 Correct Information, Accounting and Reporting

BXPL's business information is disclosed accurately, timely and entirely. According to the applicable laws and regulations and stock exchange listing standards, BXPL provides complete and precise accounts in all its periodic financial reports, in its public communication and documents submitted to regulatory authorities and agencies.

No information shall be withheld from the external or internal auditor.

All employees who draw up such documents are expected to apply the utmost care, and caution and will use the applicable accounting standards.

### 2.2 Fair Competition

BXPL performs its business in such a manner that customers, partners and suppliers can trust in the Company and competes in a fair and open way.

### 2.3 Anti - Corruption

Corruption diminishes legitimate business activities, destroys reputations and distorts competition. The Company opposes all forms of corruption. Through Company procedures, tight internal control and this policy all employees have to comply with, BXPL acts to prevent corruption within the Company.

Bribery, trading in influence, facilitation payments and all forms of corruption are prohibited. BXPL promotes its policy on corruption amongst its business partners, contractors and suppliers.

- Bribery is defined as an attempt to influence individuals when performing their duties through offering improper advantages.
- Trading in influence exists when an improper advantage (cash, loans, travel, services or similar) is offered to an individual to influence the performance a third party's duties.
- A facilitation payment is small payment to a public official to enable or speed up a process, which is the official's job to arrange.



BXPL complies with all applicable national and international laws and regulations (for example the OECD Guidelines for Multinational Enterprises and the International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery) with respect to improper payments to local and foreign officials.

#### **2.4 Business Communications**

BXPL opposes inappropriate, inaccurate or careless communications as it can create serious liability and compliance risks for the Company. All employees are required to exercise due care when communicating both internally and externally and particularly when the communication is a written document (including email).

#### **2.5 Political Activity**

BXPL does not support any political party. An individual employee may become involved politically as a private person without referencing to their relationship with the Company.

### **3 PERSONAL CONDUCT**

#### **3.1 Human Rights**

BXPL respects the principles of the UN's Universal Declaration of Human Rights and is guided by its provisions in the conduct of the Company's business. The Board of Directors adopted this policy to express the Company's requirements for business practice and personal conduct and to demonstrate the Company's commitment to maintaining a high standard of social responsibility, ethics and integrity.

Relations with employees are based on respect. BXPL is committed to a working environment with mutual trust and where everyone is accountable for their own actions and share responsibility for the performance and reputation of BXPL.

#### **3.2 Equal Opportunity**

BXPL does not tolerate any kind of discrimination of employees, customers and partners on account of religion, gender, sexual orientation, age, nationality, political views, disability or other circumstances. BXPL does not tolerate unlawful employment discrimination of any kind.

The Company expects all of its employees to treat others they come in contact with through work with respect and courtesy, and to refrain from harassment, discrimination and any other behavior that may be regarded threatening or degrading.

It is everyone's responsibility to create and contribute to a positive working environment for all employees.

#### **3.3 Buying Sexual Services**

Employees of BXPL must not buy sexual services when it might be perceived that they are representing BXPL. Purchasing sexual services may be illegal, and may support human trafficking. The Company strongly opposes human trafficking.

#### **3.4 Protection of BXPL's Property and Possessions**

BXPL assets are of considerable value, whether financial or physical assets or intellectual property, and may therefore only be used to advance BXPL business purposes and goals. These assets must be secured and protected in order to preserve their value.

All employees are entrusted with Company assets in order to do their jobs, and are personally responsible for safeguarding and using these appropriately. Such assets include buildings and sites, equipment, tools and supplies, communication facilities, funds, accounts, computer programs and data, information, technology, documents, and know-how, patents, trademarks, copyrights, time, and any other resources or property of BXPL.

Employees are responsible for protecting Company assets against waste, loss, damage, misuse, theft, misappropriation or infringement and for using those assets in responsible ways. Use of Company assets without direct relation to BXPL requires the prior authorization of the employee's supervisor.



### 3.5 Confidentiality

To protect the Company's legitimate interests and the individual's privacy and integrity, every employee shall apply the utmost care to prevent disclosure of confidential information. The Company's property or information gained through the employee's position in BXPL may never be used for personal benefit.

The duty of confidentiality continues after the termination of the employment.

### 3.6 Conflict of Interest

Individuals acting on behalf of BXPL shall behave objectively and without any kind of favoritism. Companies, organizations or individuals the Company does business with shall not be given any improper advantages.

No employee may work on any matter or participate in any decision in which they, their spouse, partner, close relative or any other person with whom they have close relations has a material direct or indirect financial interest or where there are other circumstances that may undermine the trust in the employee's impartiality or the integrity of their work. Closely related parties shall not have positions within the Company where one is the other's supervisor without the CEO's prior approval.

No employee may participate through employment, directorship or any other assignment in companies in the same line of business as BXPL without the prior written approval of the CEO or the Chairman of the Board. Members of the Company's Board shall inform the chairman of the Board of their involvement in other companies.

### 3.7 Gifts and Hospitality

No employee may, directly or indirectly, accept gifts from any of the Company's associates. This rule applies also to ongoing negotiations. If an employee is offered or may be offered such a gift, he/she shall immediately contact his/her supervisor, who will decide if the gift will affect the employee's independence should it be accepted.

Token gifts in connection with Christmas, anniversaries and the like may be exempted from this rule.

## 4 HEALTH, SAFETY AND ENVIRONMENT (HSE)

The Company is developing the Badger Explorer, a revolutionary technology for exploration and verification of hydrocarbon prospects, without the risks, cost and complexity of drilling an exploration well with a rig. The Badger Explorer tool acquires exploration data as it drills, and once installed at its target depth, can continue to monitor subsurface parameters to enhance development and production activities.

BXPL is committed to achieving excellence in all business activities, including health, safety and environmental performance. BXPL's overriding goal is to operate safely, in environmentally and socially responsible ways, and thereby:

- Do no harm to people
- Protect the environment
- Comply with all applicable HSE laws and regulations.

BXPL aims to provide a safe, secure and healthy working environment for all its employees, contractors and suppliers. We believe that accidents and occupational illnesses and injuries are preventable, and hence apply our efforts and resources to achieving the goals listed above.

BXPL has adopted the Norwegian "inkluderende arbeidsliv" (equal opportunity rights) scheme, incorporating procedures for an active follow-up on employees' sick leave and cooperating with the Company's health service. During 2015 absence due to sickness in BXPL was 70 days compared to 86 days in 2014.

No injuries or accidents have been reported in 2015. Increased test operations will expose staff to potential risks and more hazardous environments. Recognizing this, pro-active measures and other industry best practice have been implemented,

to increase awareness and minimize the probability of accidents or injuries. Continued emphasis and awareness of issues related to health, safety and the environment will ensure that BXPL's systems and processes grow alongside the technical and commercial development.

#### **4.1 HSE Management**

Responsibility for HSE performance is shared by the Company management and its employees. Supervisors are responsible for ensuring appropriate preventive and mitigating measures are practical, available and used in practice. Employees are also responsible for using such measures and equipment, and identifying areas for improvement.

BXPL owned and operated facilities and equipment operates with the necessary permits, approvals and controls to protect health, safety and the environment. BXPL contractors and other business partners are expected to commit to the same levels of HSE protection as BXPL.

We continually set targets for improvement and agree measures by which we appraise and report performance.

#### **4.2 HSE Training and Competence**

BXPL provides ongoing training to all employees to ensure that our commitment to excellence in HSE management is reflected throughout the Company. Health, safety and environmental performance are key factors in evaluating and rewarding employees and in selecting contractors.

#### **4.3 Intoxicants**

BXPL is committed to providing a safe and productive work environment for its employees and contract staff. This means ensuring, among other things that the workplace is free from substance abuse; i.e. use of illegal drugs, misuse of legal drugs or other substances, and abuse of alcohol. All employees shall recognize the threat posed by substance abuse and the risks involved with it.

### **5 ENVIRONMENT**

The Board takes on the responsibility for the Company's impact on the environment. It is the responsibility of the Company's management to meet the Company's set environmental goals and to comply with all applicable legislation and regulations.

BXPL aims to reduce the Company's carbon footprint and its impact on the environment through a commitment to continual improvement.

#### **5.1 Field Operations**

The Badger Explorer tool in operation will reduce the environmental impact of hydrocarbon exploration and the mapping of hydrocarbon resources from two perspectives.

The first is the environmental impact of an operation using the Badger Explorer as compared to a conventional operation. The Badger Explorer requires much less equipment, occupies a smaller footprint, requires fewer people for deployment, and can even be operated un-manned after it is deployed. The environmental impact is therefore much less than conventional operations, and the HSE exposure to personnel is substantially reduced.

Secondly, the Badger Explorer can play an important role in environmental monitoring. By measuring, for example, both formation resistivity and true formation water resistivity while drilling, the Badger can establish a baseline for formation water resistivity. Once deployed to the target depth, these parameters can be monitored continuously. Any changes may be related to contamination of aquifers. Conversely, lack of change in resistivity can demonstrate that contamination has not occurred. Further, the ability to monitor distributed strain along the length of the cable enables new environmental measurements and monitoring to be performed, such as monitoring for subsurface heave or subsidence. These types of measurement are very difficult to obtain with existing conventional technology.

## 5.2 Office and Workshop

A number of specific policies and practices have been established to minimize the Company's environment impact through routine business activities.

- An oil separator has been installed in the workshop to eliminate contamination of the environment through spillage.
- No oil spillage occurred during 2015.
- Environmentally friendly workshop chemicals are chosen by preference.
- Waste is separated at source and disposed of appropriately.  
Active recycling is practiced in use of test equipment and fixtures, to avoid the unnecessary re-purchase of items that have been discarded.
- Active energy-saving is practiced in terms of heat and lighting in the workshop and the offices.
- Employees are encouraged to use all resources in the most efficient and effective way, recycle paper, bottles and cans and are asked to reduce the use of copy/printer paper.  
BXPL uses an electronic database as its primary archiving system, to minimize the use of paper.

## 6 FOLLOW-UP

### 6.1 Personal Follow-Up

Everyone to whom this policy applies shall make themselves familiar with the same and carry out their duties accordingly.

### 6.2 Handling Cases of Doubt and Breach

All employees shall without undue delay contact their supervisor, the CEO or the chairman of the Board in the event of ethical doubts, breaches of this policy or when discovering anything illegal or unethical.

### 6.3 Manager's Responsibility

Managers shall ensure that this Company policy is communicated to their staff, and shall give advice on how they are to be interpreted. Operations within their department shall be conducted according to this policy.

## 7 TARGETS AND ACTIVITIES RELATED TO ETHICAL AND CORPORATE SOCIAL RESPONSIBILITY

### 7.1 Reporting on 2015

In 2015 BXPL devoted more focus and attention to the Company's ethical and corporate social responsibility.

2015 was characterized by a high level of development activities; through the systems and process that are currently in place and the Company's emphasis and awareness of issues related to health, safety and the environment, BXPL can to report another year without workplace injuries and accidents. BXPL aims to provide a safe and healthy working environment for all its employees.

The Company established specific policies and practices to minimize the environmental impact of the Company's routine business activities:

- Our active energy-saving practice lead to a reduction in heating and lighting related costs.
- Active recycling procedures are implemented; waste is separated at source and disposed appropriately.
- No oil spillage occurred during 2015.

### 7.2 Outlook

BXPL will work with and assign more priority to corporate social responsibility in 2016. BXPL aims to keep absence due to sick leave low in 2016. With further emphasis on HSE, the Company works towards another accident and injury free year at BXPL.

The systems and procedures currently in place for "Business Practice", "Personal Conduct", "HSE" and the "Environment" will be assessed on a regular basis to ensure that they align with the Company's technical and commercial development.



## BXPL management



### Øystein Larsen CEO

Mr. Larsen has broad experience from the oil and gas industry, working with mechanical, electrical and automation systems. He holds a M.Sc. in Cybernetics and Signal Processing from the University of Stavanger, Norway. Working in Badger Explorer ASA since early 2009, he has gained unique knowledge and hands-on experience of the Badger tool, including development, testing and field deployment. Until his appointment as CEO, Mr. Larsen held the positions as CTO and Head of System Architecture, working on specifying and designing the next generation Badger.



### Gunnar Dolven CFO

Mr. Dolven holds a MBA in Corporate Finance from the Norwegian School of Economics & Business Administration (NHH), Bergen, Norway and a M.Sc. in applied mathematics from the same institution. He has more than 25 years' managerial experience from the financial sector and the oil & gas industry including positions as COO and CEO of SpareBank1 and Sr. Vice President/Director of group planning in Statoil ASA. He has extensive board experience including positions as chairman from several companies.



### Kjell Markman Sr. VP Business Dev. & Strategy

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



### Steinar Bakke Senior Advisor

Mr. Bakke holds a B.Sc. in Civil Engineering from Sør-TS (Grimstad Technical College). He has more than 40 years from various positions within major Service Companies and Oil Companies delivering goods and services to the oil & gas industry. Mr. Bakke has held senior management positions in Schlumberger, and in several small independent new start service companies.

## Board of Directors



### Marcus Hansson Chairman of the Board

Mr. Hansson has extensive experience from the financial services sector as a Portfolio Manager and former Stockbroker within Hedge Fund Sales. Currently, Mr. Hansson works as a business developer and London based investor. Previously, Mr. Hansson held a position as Portfolio Manager within the Proprietary Trading Department at Credit Suisse Europe LTD in London investing money for the Arbitrage Strategies group. For more than 10 years Mr. Hansson has also worked as a Stockbroker and Hedge Fund Sales for Carnegie Investment Bank and SEB Enskilda focusing on Long/Short strategies, Special Situations and Risk Arbitrage. Mr. Hansson holds a M.Sc. in Business Administration and Economics from the University of Stockholm. Mr. Hansson has been a member of the Company's Board since December 2010. He was elected chairman in April 2011.



### Birte N. Borrevik Board member

Having started her career with Statoil in 1980, Ms. Birte N. Borrevik brings experience from roles in Drilling Project management and operational HSE. She currently holds the position of HSE & Operations Manager in Explora Petroleum AS. She also spent 18 years in various roles in BP both in Norway and internationally in the Drilling- and Major project organizations. Ms. Borrevik has a BSc in Petroleum Engineering from the University of Stavanger.

Ms. Borrevik was elected a member of the Company's Board in May 2014.



### Belinda T. Ingebrigtsen Board Member

Mrs. Belinda T. Ingebrigtsen is a senior lawyer in Kluge's real property department. Before joining Kluge, Mrs. Ingebrigtsen worked as an assistant professor at the University of Bergen, and as a deputy judge and an appointed judge at the Stavanger district court. Mrs. Ingebrigtsen works mainly with dispute resolution and litigation within a wide range of areas, and with sale and purchase, leasehold and development of real property.

Mrs. Ingebrigtsen was elected a member of the Company's Board in September 2015.



### David Ottesen Board member

Mr. David S. Ottesen has 34 years of experience from the oil service industry. He was the general manager of Baker Hughes Inteq Scandinavia Region 1993-2000. He also headed Baker Hughes Inteq Eastern and Western Hemisphere 2000-2004. At present he is the CEO of Risavika Havn AS, Stavanger.

Mr. Ottesen has been a member of the Company's Board since May 2013.



## The Board of Directors' report

Badger Explorer ASA (BXPL) continues to develop the "Badger Explorer", a revolutionary technology for exploration and verification of hydrocarbon prospects, without the risks, cost and complexity of conventional drilling operations. The Badger Explorer tool acquires exploration data as it drills, and once installed at its target depth, the tool can continue to monitor subsurface parameters to enhance development and production activities.

The Badger Explorer idea originated at IRIS in 1999. The Company was established in 2003 and listed on the Oslo Stock Exchange (Oslo Axess list) in 2007.

Badger Explorer ASA's head office is located at Prof. Olav Hanssensvei 15, 4021 Stavanger, Norway and is organized under the laws of Norway.

### Significant events during 2015

Badger Explorer ASA (BXPL) completed the Demonstrator Program in February 2015.

The results from Milestones 5 and 6 in the Demonstrator Program have given Badger Explorer valuable information about the tool performance. Laboratory analysis of the permeability in the compacted plug exceeded the expectations and was substantially better than the test requirement. In combination with the results from the previous milestones this provides a solid foundation for the next phase, the Development Program.

However, the dramatic drop in oil price led to comprehensive restructuring and cost cutting within the oil industry. As a result, BXPL has experienced a reduced ability from Oil Companies to support technology development ventures like the Badger Project. In order to adjust to the new business climate, BXPL has implemented a large cost saving program. By the end of Q1 2015, 38 % of staff was made redundant, salaries for senior management were reduced and other cost cuts were implemented.

Together with the Oil Company Partners, the Development Program has been restructured and rescheduled to fit the present financial climate. The result of this is somewhat reduced activities initially and an activity ramp up later during the Development program.

Regarding Oil Company sponsoring, Statoil signed the first phase of the Badger Development Program on the 8 June 2015. China National Petroleum Corporation Drilling Research Institute (CNPC DR) is still committed to continue sponsoring the Badger Project, but the negotiations for their final commitment to the Development Program have been delayed.

After signing a Memorandum of Understanding (MoU) with CNPC DR on September 22nd, BXPL and CNPC DR have been in close dialogue to speed up the process of CNPC DR entering the Development Program. As part of this dialogue, BXPL met with the Chinese Embassy in Oslo to discuss the cooperation. BXPL and CNPC DR again met in January 2016 where a new MoU was signed underlining CNPC DR's intention to enter the Development Program. Negotiations are on-going and BXPL and CNPC DR's ambition is to finalize these as soon as possible.

BXPL and the Development Program Steering Committee agreed on these focus areas for 2015:

- Locomotion system
- High Power HPHT transducers for compaction and drilling
- Cuttings transport system

A feasibility study of solid-state Locomotion was delivered by CEDRAT Technologies, a European R&D company specializing in complex, mechatronic systems. The study concludes that the concept is feasible, and a plan to further investigate the principle is recommended. This can be one of the deliverables in the Development Program due in 2016, depending on Steering Committee priorities and available funding.



In Q4-2015, High Power HPHT transducers, developed under a Norwegian Research Council Petromaks2 supported program, were successfully qualified for operation at 150 C and 700 bars. Employing cutting edge technology, the transducers represent a significant step in the development of compaction and drilling systems for Badger Explorer tools.

BXPL have also, together with Honeybee Robotics (US), developed and built a full scale Cuttings Transport System. The Cuttings Transport System was initially based on previous work completed together with Honeybee Robotics and experiences gathered during the Demonstrator Program tests.

BXPL has entered partnership dialogue with several international Oilfield Service Companies. Such a partnership will positively impact Badger Explorer, accelerating technical advancement of the tool and aiding in successful market introduction.

#### *Research and development*

During 2015, the Company spent NOK 16.823 million (NOK 27.900 million in 2014) on research and development related to the Badger Development Program.

#### *Presentation of 2015 accounts*

##### *Accounting policies*

The financial statements of BXPL have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU on 31<sup>st</sup> December 2015.

##### *Operating revenues*

Total revenues from continuing operations for BXPL were NOK 0,00 in 2015, compared to NOK 0,00 in 2014.

##### *Operating expenses*

Total operating expenses for BXPL were NOK 12.807 million in 2015, compared to NOK 21.414 million the previous year, which is a decrease of 40.2%. The cost decrease was driven by the current market challenges and uncertainty with respect to future oil prices. The Company has significantly reduced its cost structure to align with anticipated lower activity level. Effective from 30 June 2015, three employees were laid off from their positions.

##### *Development costs*

All development costs incurred during 2015 and 2014 were related to the development of the Badger Explorer technology in BXPL. In 2015, BXPL spent NOK 16.823 million on development projects, of which NOK 14.124 million were capitalized, compared to NOK 27.900 million, of which NOK 24.107 million were capitalized in 2014. The public grants from the RCN and pledged tax deduction from Skattefunn amounted to NOK 6.574 million for 2015 and NOK 14.675 million for 2014. The public grants were deducted from the carrying amount of the capitalized development costs.

##### *Net financial items*

Net financial items for BXPL amounted to NOK -450,308 for 2015, compared to NOK -1.951 million for 2014. Net financial loss decrease was primarily attributable to net loss on foreign exchange.

### Performance

Net loss attributable to equity holders of the Company was NOK -13.257 million for 2015, compared to NOK -23.365 million for 2014. Ordinary earnings per share from continuing operations of BXPL amounted to NOK -0.72 in 2015 (NOK -1.26 in 2014).

### Statement of financial position and cash flow

All figures in NOK million at Year End	Badger Explorer ASA	
	2015	2014
Total Assets <sup>1</sup>	152.5	150.6
Total Equity	66.2	78.9
Equity Ratio	43.4%	52.4%
Total Intangible Assets <sup>2</sup>	148.2	140.6
Total Investments in Shares <sup>3</sup>	0	0
Share Capital <sup>4</sup>	2.3	2.3
Total Liabilities <sup>5</sup>	86.3	71.7
Debt financial institutions <sup>6</sup>	6.7	0
Net Cash Position <sup>7</sup>	0.6	4.4

1. Total assets in BXPL increased due to capitalisation of development expenditure.
2. The increase in total intangible assets is mainly related to capitalized costs for the Badger Explorer development project.
3. The investment in SST was initially recognised at fair value at the effective date of the sale from 100% to 15% of the shares. BXPL's fair value assessment of the investment in the shares was set to zero at year end 2015.
4. Total of 18,537,288 outstanding shares at a nominal value of NOK 0.125 per share.
5. Capitalized partner capital contributions (total of NOK 75.000 million) are recognised as long-term liabilities, which will be repaid by paying 5% royalty of all technology related sales in the future.
6. BXPL 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 a fixed interest rate of 4.95%. In addition, there is a yearly commission of 1.0% on the credit line. As of 31 December 2015, NOK 6.711 million has been drawn on the overdraft facility. Financial covenants: equity - not be less than NOK 75 million and should exceed more than 50% of the book equity ratio. The book equity less intangible assets must be positive. Accounts receivable - must exceed 75% of the withdrawn credit facility. Financial review - quarterly financial statement submission to the bank. The overdraft facility of NOK 7.5 million with Sparebanken Vest is in breach with the agreed covenants as of 31 December 2015.
7. Cash and cash equivalents were NOK 585,953 end of 2015 compared to NOK 4.351 million end of 2014.

Deferred tax assets are not recognised in the statement of financial position as BXPL is in a development phase and is currently generating losses.

### Allocation of the 2015 result

BXPL's annual result amounted to a loss of NOK -13.257 million. The Company has no distributable equity. The Board of Directors proposes that the loss is transferred to retained earnings.

### *Risk management*

Risk management is a critical success factor for BXPL. The Board focuses on risk management and deems it important that the Company maintains the necessary measures to manage controllable risk factors in order to keep these within acceptable limits.

BXPL is exposed to a number of financial and non-financial risks. Financially, the main risk factors are fluctuations in interest rates and exchange rates, oil price fluctuations, credit risk and liquidity risk. Non-financial risks include technology risk, competing technologies, market risks, regulatory permits and environmental exposure.

BXPL has implemented internal control and risk management systems appropriate to the size and nature of the Company's activities. The Company's core values, ethical guidelines and the corporate social responsibility policy are incorporated in the internal control and risk management systems.

The Board of Directors carries out an annual review of the control and risk management systems and the Company's most significant exposures.

### *Financial risks*

#### *Interest rate risk*

The Company's financial income and financial cost in the income statement are both influenced by changes in interest rates. BXPL's interest rate risk is mainly related to funding in USD. The Company has NOK 450,308 in net financial loss as of 31 December 2015. The Company's debt to financial institutions carries fixed interest rate of 4.95%. In addition, there is a yearly commission of 1.0% on the credit line. As of 31 December 2015, NOK 6.711 million has been drawn on the overdraft facility.

#### *Foreign currency exchange risk*

The Company's cash reserves of NOK 585,953 are deposited in the Norwegian bank Sparebanken Vest. All the Company's financial instruments are in a Norwegian Kroner (NOK) functional currency. When commercial operations in larger scale commence, a foreign currency exchange risk policy will be introduced.

#### *Credit risk*

BXPL trades only with recognised, creditworthy third parties. It is the Company's policy that all customers that wish to trade on credit terms are subject to credit verification procedures. All cash in the Company is deposited in the Norwegian bank Sparebanken Vest. Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk.

#### *Liquidity risk*

BXPL monitors its liquidity on a regular basis, and produces rolling liquidity forecast on a monthly basis in order to identify liquidity requirements in future periods. The target for BXPL's management of liquidity risk is to maintain a liquidity corresponding to its net liquidity requirements for 12 months.

The cash position of BXPL at year end 2015 was NOK 585,953, compared to NOK 4.351 million in 2014. At year-end 2015, the Company has withdrawn NOK 6.711 million of the total overdraft facility of NOK 7.500 million. The main cash inflow during 2016 is Skattefunn 2015 tax deduction (NOK 2.547 million), the remaining RCN's grants (NOK 6.171 million) and the Badger Development Program partner funding from Statoil for the Milestone 1 (NOK 5.000 million). The Company believes it will have sufficient funds to continue its ongoing operations during 2016 and meet its obligations, if Statoil and CNPC DR join the Development Program. As of 27 April 2016, the signatures from Statoil and CNPC DR for the Development Program are still

pending. In January 2016, CNPC DR signed MoU indicating their intent to support Development Program. In April 2016, Statoil also indicated their intent to support the Development Program. The level of technical progress is dependent upon the level of funding from the partners. Contingencies for 2016 include overdraft facility with the Company's bank and accelerated release of government grants and partner funding.

Cash level will be carefully managed during 2016. The Badger Development Program will contribute to operational funding in 2016. In Q1 2016, Statoil approved the first and second key deliverables of Milestone 1 of the Badger Development Program, which released NOK 5 million. Technical progress on the HPHT ultrasonic project will release funding from awarded grants. As of 22 April 2016, the Company has withdrawn NOK 4.604 million of the total overdraft facility of NOK 7.500 million. BXPL is in breach of the financial covenants in the current credit facility, ref. note 15.

#### *Crude oil price fluctuations*

All BXPL's partners are large international oil operating companies. The performance of BXPL's partners is closely linked to the crude oil price. Oil prices have dropped more than 50 percent since mid-2014. During May 2016, Brent crude rose to USD 68.40, which reached its highest 2015 price. During December 2015, Brent crude fell as low as USD 36.35 a barrel, this was the lowest price since July 2004.

Lower oil prices might have an impact on the capability and willingness of oil companies to support technology projects. BXPL's partners are large global corporations and BXPL's management expects them to take a long term view not being impacted by short term oil price fluctuations.

#### **Non-financial risks**

##### *Technology risk*

Development work contains inherent technology risks. During the last part of the Badger Demonstrator Program, four main technical challenges were identified. They have been addressed in specific R&D projects which is integrated in the Badger Development Program.

There is a risk that the development of a commercial version of the Badger Explorer could be more extensive than planned and this could result in a longer development time.

In parallel with the Badger Demonstrator Program, a number of activities have been conducted to identify and reduce technology risk. The delivery and final approval of the Badger Demonstrator Program represents a major reduction of risk in the development of the Badger technology.

##### *Competitive technology*

Badger Explorer has not identified any direct competitors to its technology and future closed cavity operations. Competition could, however, appear after the BXPL technology proves successful and, hence, the timing of the market introduction of the tool will be vital for the market positioning and the profit potential of the technology. The Company's IP position is deemed adequate and the defined IP strategy includes a strengthened process to protect IP related to specific technical solutions.

Once the Badger technology has been commercialised, the emphasis will be on developing robust and reliable services and equipment, to minimize the risk of lost market share as a result of poor performance.

##### *Market risks*

BXPL considers the potential market for Badger Explorer services to be large and increasing. Third party market studies



commissioned by BXPL identify specific markets by customer, geography, underground structures and Badger Explorer applications, highlighting potential customer savings in time and cost as well as other benefits. The sponsors have preferential access to the technology which will encourage early uptake.

#### *Permission to operate from relevant regulatory bodies*

When radically new concepts are introduced, regulatory bodies are likely to require stringent qualifications to assure operational safety. Such requirements may be functional (which can be addressed through demonstrating performance of the tool) or literal, which can be more of a time-consuming challenge.

#### *Environmental risks*

The Badger Explorer will have a dramatically lower environmental impact compared to a conventional exploration operation. The technology is inherently non-polluting and the general public as well as regulators and customers can readily understand the substantial environmental benefits the technology may bring. Rather than a risk, the tool's environmental performance should be seen as a selling point.

#### *Going concern*

The Board states that the annual accounts represent a true and fair view of the Company's financial position at the end of the year. In accordance with the Accounting Act §3-3 (a), the Board of Directors confirms that the financial statements have been prepared under the assumption of going concern. However, the Board of Directors accepts the going concern assumption to be present but the Board assesses the current liquidity situation as very tight. As of April 27, 2016, signatures from CNPC DR for the Badger Development Program are pending, and as a result the funding from both sponsors, Statoil and CNPC DR, is uncertain.

BXPL 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 a fixed interest rate of 4.95%. In addition, there is a yearly commission of 1.0% on the credit line. As of 31 December 2015, NOK 6.711 million has been drawn on the overdraft facility. The overdraft facility with Sparebanken Vest is in breach with the agreed covenants as of 31 December 2015.

The Board assesses the uncertainties for pending signatures and corresponding liquidity risk causing significant risk about the Company's ability to continue as a going concern.

#### *Health, safety and the environment (HSE)*

Good HSE systems and procedures are a precondition for an effective and safe working environment. The Board of Directors works continuously with the Company's management to ensure that business is conducted in a responsible manner and with respect for the employees and the environment.

BXPL has adopted the Norwegian "inkluderende arbeidsliv" (equal opportunity rights) scheme, incorporating procedures for an active follow-up on employees' sick leave and cooperating with the Company's health service. During 2015, absence due to sickness in BXPL was at 70 days, compared 86 days in 2014.

No injuries or accidents have been reported in 2015. Increased test operations exposed staff to potential risks and more hazardous environments. Recognizing this, pro-active measures and other industry best practice have been implemented, to increase awareness and minimize the probability of accidents or injuries. Continued emphasis and awareness of issues related to health, safety and the environment will ensure that BXPL's systems and processes grow alongside the technical and commercial development.

### Personnel and organization

BXPL is committed to equal opportunity and non-discrimination. At year-end 2015, BXPL had 4 permanent employees, of which 2 were female employees, compared to 9 employees in 2014 (3 female employees). Several functions previously held by employees have been contracted out during 2015.

In 2015, salaries for male employees averaged NOK 925,310 (compared to NOK 1.075 million in 2014). Salaries for female employees averaged NOK 643,178 both for 2015 and 2014.

Both in 2015 and 2014, 33% of BXPL's employees were of foreign nationality. All members of BXPL's Executive Management were of Norwegian nationality in 2015.

The Company is dependent upon engaging the best competence available. Competence is sourced without preference for gender, race, religion, political- or sexual inclination.

### External environment

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

One of the major benefits of the Badger Explorer, whether in initial field deployments or as part of the exploration and de-risking of a major new deep-water project, will be the reduced environmental impact and HSE exposure, compared to a drilling rig and associated support. From an environmental perspective, significantly less equipment, traffic and support activities will be required for a Badger deployment. During operation, the tool can be run un-manned which eliminates a whole range of safety exposures.

### Corporate Social Responsibility (CSR)

BXPL is committed to enhancing shareholder value in an ethical and socially responsible manner. By implementing the CSR Policy and Ethical Guidelines, the Company aims at taking responsibility and to set an example of good practice. The Board of Directors reviews the policy and the guidelines yearly and adopted the latest versions of the CSR Policy and the Ethical Guidelines on 11<sup>th</sup> February 2016. These guidelines are available on the Company's website ([www.bxpl.com](http://www.bxpl.com)). The documents apply to staff, Board members, temporary employees, consultants and any person or entity acting on behalf of BXPL.

Corruption diminishes legitimate business activities, destroys reputation and distorts competition. BXPL opposes all forms of corruption and will act to prevent corruption within the Company. The set of ethical guidelines adopted by the Board clearly states the standards of behaviour expected by all BXPL employees. Bribery, trading in influence, facilitation payments and all form of corruption are prohibited. BXPL promotes its policy on corruption amongst its business partners, contractors and suppliers.

- Bribery is defined as an attempt to influence individuals when performing their duties through offering improper advantages.
- Trading in influence exists when an improper advantage (cash, loans, travel, services or similar) is offered to an individual to influence the performance third party duties.
- A facilitation payment is a payment to a public official to enable or speed up a process, which is the official's job to arrange.

BXPL complies with all applicable national and international laws and regulations (for example, the OECD Guidelines for Multinational Enterprises and the International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery) with respect to improper payments to foreign officials.

BXPL is also committed to providing a safe, secure and healthy working environment. BXPL's overriding goal is to operate safely, in environmentally and socially responsible ways, and thereby:

- Do no harm to people
- Protect the environment
- Comply with all applicable HSE laws and regulations.

The Company believes that accidents and occupational illnesses and injuries are preventable, and hence applies efforts and resources to achieve the goals listed above. BXPL is proud of its good HSE statistics. During 2015, BXPL did a lot of testing and hands-on development work, without recording any injuries or accidents.

The responsibility for the HSE performance is shared by the Company's management and its employees. Supervisors are responsible for ensuring that appropriate preventive and mitigating measures are practical, available and used in practice. Employees are responsible for using such measures and equipment, and for identifying areas of improvement. BXPL operated facilities and equipment must operate with the necessary permits, approvals and controls to protect health, safety, security and the environment.

The Company provides ongoing training to ensure that BXPL's commitment to excellence in HSE management is reflected throughout the Company. Health, safety and environmental performance are key factors in evaluating and rewarding our employees as well as when selecting contractors.

BXPL does not tolerate any kind of discrimination of employees, customers and partners on account of religion, gender, sexual orientation, age, nationality, political views, disability or other circumstances. We will not tolerate unlawful employment discrimination of any kind. The Company expects all of its employees to treat others they come in contact with through work with respect and courtesy, and to refrain from harassment, discrimination and any other behaviour that may be regarded threatening or degrading. Honesty, integrity and respect for people underpin everything BXPL staff does, and are the foundation of the Company's business practice.

BXPL aims to reduce the Company's carbon footprint and its impact on the environment through the commitment to continual improvement. The Company strives to keep the pollution of the external environment as low as possible by its current activities. A number of specific policies and practices have been established to minimize the Company's environmental impact through routine business activities

- An oil separator has been installed in the workshop to eliminate contamination through spillage. No spillage has occurred during 2015.
- Environmentally friendly workshop chemicals are chosen by preference.
- Waste is separated at source and disposed of appropriately.
- Active recycling is practiced in use of test equipment and fixtures, to avoid the unnecessary re-purchase of items that have been discarded.
- Active energy-saving is practiced in terms of heat and lighting in the workshop.

### Corporate Governance

Corporate Governance is performed within the framework of the Norwegian Code of Practice for Corporate Governance dated 30<sup>th</sup> October 2014 ([www.nues.no](http://www.nues.no)). The Board reviews the Corporate Governance Policy annually and approved the latest version on 11<sup>th</sup> February 2016 which can also be found on the Company's website ([www.bxpl.com](http://www.bxpl.com)) and is included in this Annual Report.

As required for a public limited company listed on the Oslo Stock Exchange (Oslo Axess List) BXPL provides its shareholders, the Oslo Stock Exchange and the financial market with timely and accurate information. Such information takes the form of annual reports, quarterly interim reports, stock exchange notifications and investor presentations as applicable.

BXPL communicates its long-term potential, strategy, value drivers and risk factors. The Company maintains an open and proactive investor relations policy and a best-practice website and presents regularly in connection with annual and interim results in Norway. Sound corporate governance underpins growth to benefit shareholders, employees and other stakeholders. The Board strives continuously to build confidence in the Company through the implementation of corporate governance-, accounting- and Oslo Stock Exchange standards. The Board of Directors emphasizes transparency and openness, equal treatment of all shareholders, competence in the Company's governing bodies, independence of auditors and accuracy of information distributed by the Company reflecting its status and operations.

#### Board of Directors of Badger Explorer ASA

The composition of the Board of Directors and the Board members' competences and expertise are chosen to support the Company's goals. BXPL's Board consists of four members, two males and two females. At the EGM on 17<sup>th</sup> September 2015, Ms. Belinda T. Ingebrigtsen was elected as members of the Board of Directors.

The Board of Directors held 5 ordinary Board meetings and 4 extraordinary Board meeting during the fiscal year 2015.

The Board's Audit Committee consists of Chairman Mr. Marcus Hansson. The Board conducts an annual evaluation of its work.

#### Changes after 31<sup>st</sup> December 2015

BXPL has significantly reduced its cost structure to align with anticipated lower activity level. Effective from 1 January 2016 until further notice, the executive management of BXPL has implemented a temporary salary reduction by 15% for all employees as a result of budgetary constraints.

On 20 January 2016, Mr. Øystein Larsen was appointed new CEO of BXPL. Mr. Larsen has previously held the position as CTO of BXPL and has been working for the Company since 2009. Mr. Steinar Bakke, former CEO of BXPL, will assume the position as Senior Advisor focusing on sponsoring partners and industrial partnerships.

On 11 January 2016, Mr. Bakke has purchased 45,473 shares in BXPL at a price of NOK 0.95 per share. The total holding of Mr. Bakke's shares, after this transaction, is 200,437 shares.

No other events have taken place after the reporting period that would have affected the financial statements or any assessments carried out.



### Outlook

The delivery of Milestones 5 and 6 in February 2015 represents the conclusion of the Demonstrator Program and is a major reduction in the technical risk related to the development of the Badger Explorer technology.

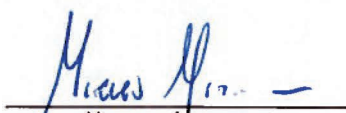
The main focus for the BXPL organization in 2016 will be to secure participation from current and possibly new partners and continue the execution of the Badger Development Program.

BXPL has entered partnership dialogue with several international Oilfield Service Companies. Such a partnership will positively impact Badger Explorer, accelerating technical advancement of the tool and aiding in successful market introduction.

The Board of Directors wish to extend their gratitude to the entire BXPL staff for the considerable technical progress and achievements made in advancing the Badger tool throughout 2015.

Stavanger, 27<sup>th</sup> April 2016


The Board of Directors and the Chief Executive Officer of Badger Explorer ASA



Marcus Hansson  
(Chairman of the Board)



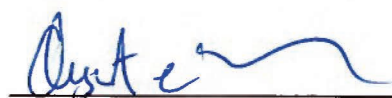
Birte Noer Borrevik  
(Board member)



Betinda T. Ingebrigtsen  
(Board member)



David Ottesen  
(Board member)



Øystein Larsen  
(CEO)

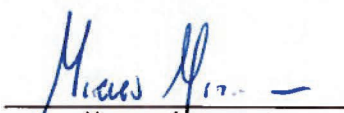
### Responsibility statement

We confirm, to the best of our knowledge that the financial statements for the period 1st January to 31st December 2015 have been prepared in accordance with IFRS as adopted by the European Union and generally accepted accounting practice in Norway, and give a true and fair view of the assets, liabilities and financial position and result of Badger Explorer ASA.

We also confirm, to the best of our knowledge that the Board of Directors' report includes a true and fair overview of the development, performance and financial position of Badger Explorer ASA, together with a description of the principal risks and uncertainties they face.

Stavanger, 27<sup>th</sup> April 2016


The Board of Directors and the Chief Executive Officer of Badger Explorer ASA



Marcus Hansson  
(Chairman of the Board)



Birte Noer Borrevik  
(Board member)



Betinda T. Ingebrigtsen  
(Board member)



David Ottesen  
(Board member)



Øystein Larsen  
(CEO)



# Badger Explorer ASA

## Income statement - Badger Explorer ASA

All figures in NOK

	Note	2015	2014
<b>REVENUES</b>			
Other income		0	0
<b>Total revenues</b>		<b>0</b>	<b>0</b>
<b>OPERATING EXPENSES</b>			
External services for development project	8	8 725 892	16 520 280
Payroll and related expenses	6	9 921 081	17 342 776
Depreciation	7	200 371	300 883
Other operating expenses		8 083 181	11 356 929
Capitalized development costs	8	-14 123 964	-24 106 993
<b>Total operating expenses</b>		<b>12 806 562</b>	<b>21 413 875</b>
<b>Operating profit (loss)</b>		<b>-12 806 562</b>	<b>-21 413 875</b>
Financial income	3	38 831	677 694
Other financial income	3	15 518	375 080
Financial expenses	3	504 656	303 604
Loss on sale of associate and shares	3,17	0	156 802
Impairment of remaining shares	3,17	0	156 802
Share of profit / (loss) of associates	3,17	0	2 387 020
<b>Net financial income (loss)</b>		<b>-450 308</b>	<b>-1 951 455</b>
<b>Profit (loss) before taxes</b>		<b>-13 256 869</b>	<b>-23 365 330</b>
Tax on ordinary result	4	0	0
<b>Net profit (loss)</b>		<b>-13 256 869</b>	<b>-23 365 330</b>
<b>Profit (loss) attributable to equity holders of the company</b>	<b>5</b>	<b>-13 256 869</b>	<b>-23 365 330</b>
Earnings per share	5	-0.72	-1.26
Earnings per share diluted	5	-0.70	-1.23



## Statement of comprehensive income - Badger Explorer ASA

All figures in NOK

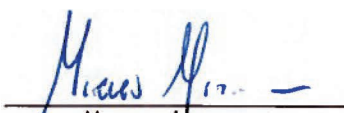
Total comprehensive income	2015	2014
Profit (loss) for the year	-13 256 869	-23 365 330
Other comprehensive income		
- items that will later be reclassified to profit or loss		
Translation differences	0	0
<b>Total comprehensive income for the year, net of tax</b>	<b>-13 256 869</b>	<b>-23 365 330</b>
<b>Total comprehensive income attributable to:</b>	<b>2015</b>	<b>2014</b>
Equity holders of the company	-13 256 869	-23 365 330
Non-controlling interest	0	0
<b>Total comprehensive income</b>	<b>-13 256 869</b>	<b>-23 365 330</b>

## Statement of financial position - Badger Explorer ASA


All figures in NOK

ASSETS	Note	2015	2014
<b>NON-CURRENT ASSETS</b>			
Capitalized development costs	2,8	147 767 798	140 217 614
Patent rights	8	386 668	386 668
<b>Total intangible assets</b>		<b>148 154 466</b>	<b>140 604 282</b>
Property, plant & equipment	7	100 933	301 304
<b>Total tangible assets</b>		<b>100 933</b>	<b>301 304</b>
Investment in shares	17	0	0
<b>Total investment in shares</b>		<b>0</b>	<b>0</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>148 255 399</b>	<b>140 905 594</b>
<b>CURRENT ASSETS</b>			
Other receivables	2,9,14	3 629 859	5 390 522
<b>Total receivables</b>		<b>3 629 859</b>	<b>5 390 522</b>
Cash and cash equivalents	10	585 953	4 350 500
<b>TOTAL CURRENT ASSETS</b>		<b>4 215 812</b>	<b>9 741 022</b>
<b>TOTAL ASSETS</b>		<b>152 471 211</b>	<b>150 646 616</b>

EQUITY AND LIABILITIES	Note	2015	2014
<b>EQUITY</b>			
Share capital	11	2 317 161	2 317 161
Share premium	11	218 069 985	218 069 985
Other paid in capital	6	4 167 490	3 659 643
<b>Total paid in equity</b>		<b>224 554 636</b>	<b>224 046 789</b>
Retained earnings		-158 347 399	-145 090 529
<b>Total equity attributable to equity holders of parent</b>		<b>-158 347 399</b>	<b>-145 090 529</b>
<b>TOTAL EQUITY</b>		<b>66 207 237</b>	<b>78 956 260</b>
<b>LIABILITIES</b>			
Capitalized grants	13	75 000 000	66 520 000
<b>Total long term liabilities</b>		<b>75 000 000</b>	<b>66 520 000</b>
Accounts payable	12,14	3 077 545	2 394 292
Public duties payables		474 324	1 650 303
Debt financial institutions	15	6 711 379	0
Other short term liabilities	16	1 000 727	1 125 761
<b>Total short term liabilities</b>		<b>11 263 975</b>	<b>5 170 356</b>
<b>TOTAL LIABILITIES</b>		<b>86 263 975</b>	<b>71 690 356</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>152 471 211</b>	<b>150 646 616</b>

Stavanger, 27<sup>th</sup> April 2016
  
 Marcus Hansson  
 (Chairman of the Board)

  
 Birte Noer Borrevik  
 (Board member)

  
 Betinda T. Ingebrigtsen  
 (Board member)

  
 David Ottesen  
 (Board member)

  
 Øystein Larsen  
 (CEO)

## Statement of change in equity - Badger Explorer ASA

All figures in NOK

	Note	Share capital	Share premium	Other paid in capital	Foreign currency translation	Retained earnings	Total equity
Equity as of 1 January 2014		2 317 161	218 069 985	2 965 787	172 373	-121 897 575	101 627 732
Profit (loss) for the year						-23 365 330	-23 365 330
Foreign currency translation							0
Total comprehensive income					0	-23 365 330	-23 365 330
Changes in non-controlling interest	17				-172 373	172 373	0
Option plan payment	6			693 856			693 856
Equity as of 31 December 2014		2 317 161	218 069 985	3 659 643	0	-145 090 529	78 956 260
Profit (loss) for the year						-13 256 869	-13 256 869
Total comprehensive income						-13 256 869	-13 256 869
Option plan payment	6			507 847			507 847
Equity as of 31 December 2015		2 317 161	218 069 985	4 167 490	0	-158 347 399	66 207 237

## Statement of cash flow - Badger Explorer ASA

All figures in NOK

	Note	2015	2014
<b>Cash flow from operational activities</b>			
Contributions from operations*		-12 098 343	-20 419 137
Change in accounts receivable and accounts payables		683 066	-2 006 954
Change in other receivables and payables		-936 206	-1 286 695
<b>Net cash flow from operating activities</b>	<b>A</b>	<b>-12 351 484</b>	<b>-23 712 786</b>
<b>Cash flow from investment activities</b>			
Capitalization of development costs	8	-14 123 964	-24 106 993
<b>Net cash flow from investment activities</b>	<b>B</b>	<b>-14 123 964</b>	<b>-24 106 993</b>
<b>Cash flow from financing activities</b>			
Government grants	2	8 060 043	13 907 721
Contributions from industry partners	13	8 389 786	12 600 000
Proceeds from borrowings financial institutions	15	6 711 379	0
Interest received	3	38 831	648 037
Other financial income	3	15 518	375 080
Interest paid	3	-504 656	-303 604
<b>Net cash flow from financing activities</b>	<b>C</b>	<b>22 710 901</b>	<b>27 227 234</b>
<b>Total net changes in cash flow</b>	<b>A+B+C</b>	<b>-3 764 547</b>	<b>-20 592 545</b>
Cash and cash equivalents at beginning of period	10	4 350 500	24 943 338
<b>Cash and cash equivalents at end of period</b>	<b>10</b>	<b>585 953</b>	<b>4 350 500</b>
Net result attributable to equity holders of the company		-13 256 869	-23 365 330
Employee options	6	507 847	693 856
Depreciation	7	200 371	300 883
Financial income	3	-54 349	-1 052 774
Financial expenses	3	504 656	303 604
Share of (profit) / loss of associate	3,17	0	2 387 020
Impairment of remaining shares	3	0	156 802
Loss on sale of associate and shares	3,17	0	156 802
<b>*Total contributions from operations</b>		<b>-12 098 343</b>	<b>-20 419 137</b>



## Note 1 Accounting policies

Badger Explorer ASA (BXPL) 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 Professor Olav Hanssens vei 15, 4021 Stavanger, Norway.

### 1.1 Basis of presentation of the accounts

The financial statement of BXPL 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.

### 1.2 Investment in associates

BXPL's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in the associate is initially recognised at fair value. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date.

The income statement reflects BXPL's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, BXPL determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as share of loss of an associate in the income statement.

Upon loss of significant influence over the associate, BXPL measures and recognises any retained investment as its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

### 1.3 Foreign currency translation

The Company presents its financial statements in Norwegian kroner (NOK). This is also BXPL's functional currency.

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

Income statement in foreign associate is translated into NOK using the average exchange rate for the period (month). Assets and liabilities in foreign associate are translated into NOK using exchange rate at the balance sheet date. The exchange differences arising from the translation are recognised directly as other comprehensive income in equity.

### 1.4 Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

## Note 1 Accounting policies (continues)

### 1.5 Financial assets

#### Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, receivables, available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company's financial assets include cash and cash equivalents, trade and other receivables.

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

##### *Financial assets at fair value through profit or loss*

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

##### *Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR (Effective Interest Rate) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in financial income in the income statement. The losses arising from impairment are recognised in the income statement in cost of sales or other operating expenses for receivables. This category includes accounts receivable and other receivables carried at amortised cost or at normal amount less provision for bad debt were this can be regarded as a reasonable proxy for fair value.

### 1.6 Financial liability

Financial liabilities within the scope IAS 39 are classified as financial liabilities at fair value through profit or loss, borrowings, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

BXPL's financial liabilities include trade and other payables, bank overdraft, borrowings (capitalized grants).

#### Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

## Note 1 Accounting policies (continues)

### *Financial liabilities at fair value through profit or loss*

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit and loss so designated at the initial date of recognition, and only if criteria of IAS 39 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

### *Borrowings (capitalized grants)*

After initial recognition, borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

### *Bank overdraft*

The fair value of bank overdraft held by the Company is classified within current liabilities in the statement of financial position and it amounts to NOK 6.711 million at 31 December 2015.

### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## **1.7 Cash and cash equivalents**

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

## **1.8 Fixed assets**

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

## Note 1 Accounting policies (continues)

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

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

Plant and machinery: 6 - 10 years

Fixtures, fittings and vehicles: 3 - 5 years

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

### 1.9 Intangible assets

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

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

Intangible assets are capitalized 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.

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

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

### Patents and licenses

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



**Note 1 Accounting policies (continues)****Research and development**

Expenses relating to research and development are recognised in the income statement when they are accrued. Expenses relating to development are capitalized if the following criteria are met in full:

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

When all the above criteria are met, the costs relating to development are capitalized. All costs related to the Badger Explorer development project is capitalized continuously every month. Project manager performs a continuous assessment to identify whether the cost relates to the development project or to normal operations. Internal hours used in the development project are capitalized at cost (no mark-up).

Costs that have been charged as expenses in previous accounting periods are not capitalized.

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

**1.10 Provisions**

A provision is recognised in the accounts only when the Company is a subject to a liability that is a consequence of an event that has already happened and where it is likely that in order to reduce the liability the Company will have to apply financially measurable resources, and the liability can be reasonably estimated. Provisions are evaluated at the end of each month and adjusted to reflect the available information about the provision. Where the information available is insufficient, a best estimate is used.

**1.11 Recognition of revenue**

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

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

## Note 1 Accounting policies (continues)

### 1.12 Government grants and contribution from partners

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant are related to a development project which is capitalized, the belonging grants are deducting the carrying amount of the asset.

Government grants received to date are related to (ref. note 8):

- development projects and deducted in the carrying amount of the related project

When the contributions from partners are subject to specific requirements, the contributions are recognised in the balance sheet as long term liabilities. When the contributions from partners are not subject to specific requirements, the contributions are recognised in the balance sheet as a deduction of the carrying amount of the related project. ref. note 13.

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

### 1.13 Income tax

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

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

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

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

### 1.14 Contingent liabilities and assets

Contingent liabilities are defined as

- (i) possible obligations resulting from past events whose existence depends on future events.
- (ii) obligations that are not recognised because it is not probable that they will lead to an outflow of resources.
- (iii) obligations that cannot be measured with sufficient reliability.

## Note 1 Accounting policies (continues)

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

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

### 1.15 Events after the balance sheet date

New information received after the balance sheet date relating to events and transactions incurred before the balance sheet date is reflected in the balance sheet/income statement. Events after the balance sheet date that do not affect the Company's position at the balance sheet date but affect the Company's position in the future are stated if significant.

### 1.16 Use of estimates when preparing the annual financial statements

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

#### - Capitalized development cost/R&D cost (note 8)

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

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

Development costs are capitalized in accordance with the accounting policy. Initial capitalization of costs is based on management's judgement that technological and economical feasibility is confirmed. Project manager performs a continuous assessment to identify whether the cost relates to the development project or to normal operations. Internal hours used in the development project are capitalized at cost (no mark-up). Capitalized carrying amount for the development project amounts to NOK 147.768 million as of 31 December 2015, see note 8.

## Note 1 Accounting policies (continues)

The capitalized development of NOK 147.768 million is the main asset of BXPL, equivalent to 99.7% of total assets. Future sales of the Badger units has a minimum net price of USD 12 million, thus present capitalized value represents roughly 11 sold units. Via the development agreement the partners have a first right to buy Badger services at agreed terms. This right to buy the first operations secures BXPL prime customers and likely delivery of many units. The year-end valuation of the capitalized technology must be seen in this perspective. Based on the above assessment of future sales the entity has assessed that there is no need to book an impairment of the capitalized cost in 2015.

### 1.17 Share options

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

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or

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

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



## Note 1 Accounting policies (continues)

### 1.18 Impairment of assets

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

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

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

### 1.19 Cash flow statement

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

### 1.20 Costs related to equity transactions

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

### 1.21 Changes in accounting policies and disclosures

The Company has implemented all changes in standards and interpretations for 2015. The implementation of these changes have not resulted in any changes to the group beyond the information given in the notes.

Standards and interpretations that are issued up to the date of issuance of the financial statements, but not yet effective, are disclosed below. The Company's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the financial statements are issued.

Standards issued but not yet effective or implemented up to the date of issuance of the Company's financial statements  
This listing of standards and interpretations are those that the Company reasonably expect to have an impact on disclosures, financial position or performance when applied in future periods.

#### *IAS 1 Presentation of Financial Statements*

The amendments to IAS 1, issued as part of IASBs Disclosure Initiative, further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements.

#### *IFRS 9 Financial Instruments*

IFRS 9 will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. In order to expedite the replacement of IAS 39, the IASB divided the project into phases: classification and measurement, hedge accounting and impairment. New principles for impairment were published in July 2014 and the standard is now completed. The parts of IAS 39 that have not been amended as part of this project have been transferred into IFRS 9.

## Note 1 Accounting policies (continues)

### *Annual Improvements 2010-2012*

#### *IFRS 2 Share-based Payment*

The amendment is implemented prospectively and clarifies the definition of performance conditions and service conditions, including the following:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

#### *IFRS 13 Fair Value Measurement*

The amendment is implemented prospectively and clarifies that the portfolio exception in IFRS 13 can not only be applied to financial assets and financial liabilities, but also to other contracts which fall under the scope of IAS 39.

#### *IFRS 15 Revenues from Contracts with Customers*

The core principle of IFRS 15 is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company is not yet in a commercial position and the effects of the new standards has not yet been assessed.

#### *IFRS 16 Leases replaces existing IFRS leases requirements, IAS 17 Leieavtaler*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The effective date for IASB is from January 1, 2019 but not yet determined by EU. The Company does not expect the new leasing standard to have material effect on the financial statement at the date of the implementation.

#### *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendment is implemented retrospectively and clarifies that the revaluation method may be used by reference to observable data, either by adjusting the gross carrying amount to the market value or by determining the market value at the carrying amount and adjusting the gross carrying amount proportionally so that the carrying amount is equal to the market value. The accumulated depreciation / amortisation is the difference between the gross and carrying amount of the assets.

#### *IAS 24 Related Party Disclosures*

The amendment is implemented retrospectively and clarifies that an entity providing management personnel services ("a management entity") and key management personnel to management is a related party and has to apply the disclosure requirements for related parties.

The Company does not anticipate that the implementation of the standards and interpretations detailed above will have any material impact on the accounts when they are implemented other than in terms of the information that will have to be provided in the notes.

## Note 2 Government grants and development costs

(All figures in NOK)

Badger Explorer ASA (BXPL) has been awarded grants from the Research Council of Norway (RCN). For the financial year 2015, RCN has through its PETROMAKS-program awarded a grant of NOK 957,165 (2014: NOK 4.066 million) supporting a development of the Badger autonomous drilling tool. Through the PETROMAKS2-program, RCN granted NOK 4.181 million (2014: NOK 2.287 million) funding for the development of HPHT ultrasonic system.

The R&D projects have been approved for Skattefunn. For the financial year 2015, the Company has recognized NOK 2.922 million compared with NOK 1.554 million in 2014.

Innovation Norway has awarded a grant of NOK 6 million supporting BXPL's ongoing Demonstrator Program for the financial year 2014.

The R&D projects are funded with a percentage of the total project costs. The government grants and all project development costs of BXPL, related to the Demonstrator Program, are capitalized in accordance with the IFRS regulations, except of NOK 2.699 million for 2015 and NOK 3.793 million for 2014. These additional project costs are related to the restriction on capitalisation of own personnel cost in the IFRS standard.

## Note 3 Net financial income (loss)

(All figures in NOK)

	2015	2014
<b>Financial income includes the following items:</b>		
Interest income related to cash and cash equivalents	5 309	96 526
Other financial income	15 518	384 922
Currency gain	33 521	571 326
<b>Total financial income</b>	<b>54 349</b>	<b>1 052 774</b>
<b>Financial expenses include:</b>		
Other financial expenses	-181 188	-99 469
Loss on sale of associate and shares	0	-156 802
Share of profit / (loss) of associate	0	-2 387 020
Currency loss	-323 468	-204 136
Impairment of financial assets	0	-156 802
<b>Total financial expenses</b>	<b>-504 656</b>	<b>-3 004 229</b>

**Note 4 Tax**

(All figures in NOK)

<b>Income tax expense</b>	<b>2015</b>	<b>2014</b>
Payable tax	0	0
Other	0	0
Tax from previous years	0	0
Changes in deferred tax	0	0
<b>Total tax expense</b>	<b>0</b>	<b>0</b>

**Calculation of basis for tax**

Earnings before tax	-13 256 869	-23 365 330
Permanent differences	499 593	3 408 018
Changes in temporary differences	12 757 276	19 957 312
<b>Total basis for tax</b>	<b>0</b>	<b>0</b>

**Summary of temporary differences:**

Fixed assets	-631 781	-674 859
Loss carried forward	-157 257 028	-144 456 674
<b>Total</b>	<b>-157 888 809</b>	<b>-145 131 533</b>

<b>Deferred tax asset</b>	<b>-39 472 202</b>	<b>-39 185 514</b>
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**Statement of financial position**

<b>Deferred tax asset</b>	<b>2015</b>	<b>2014</b>
Loss carried forward	-39 314 257	-39 003 302
Fixed assets	-157 945	-182 212
<b>Total deferred tax asset</b>	<b>-39 472 202</b>	<b>-39 185 514</b>

Valuation allowance	39 472 202	39 185 514
<b>Total deferred tax asset recognised in the statement of financial position</b>	<b>0</b>	<b>0</b>

The Company has not recognized a deferred tax asset in the statement of financial position as the Company is in a development phase and is currently generating losses.

<b>Loss carried forward as of 31 December 2015</b>	<b>2015</b>	<b>2014</b>
Unlimited carrying forward	157 257 028	144 456 674

**Note 4 Tax (continues)**

(All figures in NOK)

<b>Effective tax rate</b>	<b>2015</b>	<b>2014</b>
Profit / (loss) before tax	-13 256 869	-23 365 330
27% tax of earnings before tax	-3 579 355	-6 308 639
Permanent differences	134 890	920 165
Changes in deferred tax asset not recognised in the statement of financial position	286 688	5 388 474
Effect due to changes in tax rate from 27% to 25% on the deferred tax asset*	3 157 776	0
<b>Calculated tax cost</b>	<b>0</b>	<b>0</b>
Effective tax rate	0 %	0 %

\*With effect from the 2016 financial year, the corporate taxable profits (ordinary income) are taxed at a flat rate of 25%. Deferred tax assets and liabilities at 31 December 2015 have been calculated using the new tax rate.

**Note 5 Earnings per share**

(All figures in NOK)

Earnings per share is calculated as net profit (loss) for the year attributable to equity holders of the Company divided by the weighted average number of shares outstanding over the year.

Diluted earnings per share is calculated as net profit (loss) for the year attributable to equity holders of the Company divided by the weighted average number of shares outstanding over the year plus the weighted average number of dilutive potential shares.

Options, awarded to employees at the end of 2006 and 2007, were waived and not included in the calculation of diluted earnings per share. The effect of options awarded to employees in September 2009, June 2010, October 2011, September 2013 and February 2014 is included in the calculation of diluted earnings per share for 2014 and 2015.

	<b>2015</b>	<b>2014</b>
Profit (loss) attributable to equity holders of the Company	-13 256 869	-23 365 330
Weighted average outstanding ordinary shares	18 537 288	18 537 288
Effect of dilution - share options	469 000	523 000
Weighted average outstanding diluted shares	19 006 288	19 060 288
<b>Earnings (loss) per share</b>	<b>2015</b>	<b>2014</b>
Ordinary	-0.72	-1.26
Diluted	-0.70	-1.23



**Note 6 Payroll and related expenses**

(All figures in NOK)

<b>Payroll and related expenses</b>	<b>2015</b>	<b>2014</b>
Salaries and vacation pay	7 015 003	12 733 637
Social security tax	1 145 796	2 021 301
Pension expense ("OTP")	301 163	468 548
Employee share option program expense (incl. national insurance contributions)	507 847	667 757
Remuneration to the Board of Directors and the Nomination Committee	545 000	815 000
Other benefits	406 271	636 533
<b>Total payroll and related expenses</b>	<b>9 921 081</b>	<b>17 342 776</b>

<b>Number of employees</b>	<b>2015</b>	<b>2014</b>
The average number of full time equivalent employees*	8	12

\*Effective from 30 June 2015, three employees were laid off from their positions as a result of cost cutting efforts.

**Pension scheme**

The Company has a defined contribution pension scheme that complies with the Norwegian mandatory occupational pension legislation (called "OTP"). The annual contributions to this scheme are at the rates of 4% for salaries between one and twelve times Public pension base rate (G) and 3% for salaries between 6 G and 12 G. The compensation scheme is financed from operations and will be paid upon members achieving a retirement age of 67. As of 1 May 2015, the amount of the Public pension base rate was NOK 90,068 per year.

	<b>2015</b>	<b>2014</b>
Contributions expensed during the year	301 163	468 548

**Total remuneration to executive management during the year ended 31 December is as follows:**

	<b>2015</b>			<b>2014</b>		
	<b>Salary</b>	<b>Other Benefits</b>	<b>Pension cost</b>	<b>Salary</b>	<b>Other Benefits</b>	<b>Pension cost</b>
Chief Executive Officer (CEO)*	1 305 362	14 535	54 792	1 735 856	14 535	54 792
Chief Technology Officer (CTO)	1 099 842	28 326	54 792	1 066 859	26 799	54 792
General Manager**	0	0	0	2 328 116	28 036	49 268

\*Effective from 1 May 2015, CEO's monthly salary was reduced by 50% from NOK 150,000 to NOK 75,000 as a result of cost cutting efforts.

\*\*Compensation for the financial year 2014 includes accrued vacation pay and other payments paid out in respect of employee's death at work.

**Note 6 Payroll and related expenses (continues)**

(All figures in NOK)

At the end of the financial year 2015, executive management of BXPL consists of CEO, CFO, CTO and Sr. Vice President Business Dev. & Strategy. Remuneration for CFO and Sr. Vice President Business Dev. & Strategy is included in the note 12 "Transactions with related parties".

**Shares and options owned directly or indirectly by the members of management as of 31 December 2015**

	No. of shares	% share	Options
Chief Executive Officer (CEO)	155 000	0.8 %	370 000
Chief Financial Officer (CFO)	434 872	2.3 %	0
Chief Technology Officer (CTO)	0	0 %	24 000
Sr. Vice President Business Dev. & Strategy	229 422	1.2 %	0
<b>Total</b>	<b>819 294</b>	<b>4.4 %</b>	<b>394 000</b>

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. 185,000 share options will vest on the day of the publication of the Company's Q4 2015 report. A further 185,000 share options will vest on the day of the publication of the Company's Q2 2017 report. The exercise of fully vested share options is at the sole of discretion of the option holder. All share options were "out of the money" on 31 December 2015.

**Remuneration to the Board of Directors and the Nomination Committee**

The Annual General Meeting held on 5 May 2015 resolved changes to the composition of the Board of Directors and remuneration of the Board members. The allocation of remuneration to the members of the Board and Nomination Committee is as follows:

	2 015	2 014
Marcus Hansson - Chairman of the Board, Audit Committee*	120 000	300 000
Birte N. Borrevik - Board member*	60 000	0
Hilde Christiansen - Board member	0	120 000
Belinda T. Ingebrigtsen - Board member	0	0
Tone Kvåle - Board member, Audit Committee**	200 000	200 000
Rolf E. Ahlqvist - Nomination Committee	25 000	25 000
Bjørge Gretland - Board member*	60 000	0
Bjørge Gretland - Nomination Committee	0	10 000
David Ottesen - Board member*	60 000	150 000
Richard Urbanski - Nomination Committee	10 000	0
Knut Åm - Nomination Committee	10 000	10 000
<b>Total remuneration</b>	<b>545 000</b>	<b>815 000</b>

\*Effective from 28 July 2015, the members of the Board was initially paid out 40% of the total remuneration as a result of the Company's tight cash position in 2015. The remaining 60% of the total Board remuneration will be paid in 2016. The Board members have decided to split their board remuneration at their own initiative.

\*\*On 31 March 2015, Mrs. Tone Kvåle resigned as member of the Company's Board of Directors.

\*\*\*On 30 December 2015, Mr. Bjørge Gretland resigned as member of the Company's Board of Directors.

**Note 6 Payroll and related expenses (continues)**

(All figures in NOK)

**Employee share option program**

On 1 January 2015, there were 523,000 share options outstanding under Employee share option program. These share options include 370,000 options granted to CEO Steinar Bakke and 153,000 share options to other BXPL's employees. Effective from 30 June 2015, three employees were laid off from their positions as a result of cost cutting efforts and their 54,000 share options forfeited. A total of 469,000 share options held by BXPL employees were outstanding on 31 December 2015. Fully vested and exercisable share options can be exercised between three to ten days after the publication of the Company's Q1 and Q3 reports.

	2015		2014	
Summary of outstanding options:	Share options	Weighted average exercise price	Share options	Weighted average exercise price
Outstanding options 01.01.	523 000	6,80	520 667	7,27
Granted options	0	0,00	213 000	7,51
Exercised options	0	0,00	0	0,00
Cancelled options	0	0,00	-43 167	12,90
Forfeited	-54 000	7,51	-67 500	7,79
Expired options	0	0,00	-100 000	7,50
Outstanding options 31.12.	469 000	6,71	523 000	6,79
Vested options	33 000	7,51	0,00	0,00
Weighted Average Fair Value of options granted during the period	0	0,00	213 000	3,45
Charged against the income statement:	507 847		693 856	
Charged against the income statement - Employers' national insurance contribution:	0		-26 099	

Fair value of the options granted is measured using the Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, expected dividends, and the risk-free interest rate. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Changes to the estimates may significantly influence the expense recognized during a period.

The Board of Directors holds an authorisation to issue shares in the Company resolved by the Annual General Meeting on 5 May 2015. This authorisation is valid until the next General Meeting to be held in 2016 with an ultimate expiry date on 30 June 2016. The authorisation is provided for increasing the Company's share capital with up to NOK 115,858 by way of issuance of up to 926,864 shares in connection with the Company's share incentive scheme.

**Implemented remuneration policy for members of executive management for 2015:**

The main principle of the Company's remuneration policy for BXPL's management is to offer competitive terms in an overall perspective taking into account salary, payments in kind, bonuses, pension plans and other benefits, to retain key staff.

Management salaries and benefits for 2015 was based on the principles noted below.

**Note 6 Payroll and related expenses (continues)**

(All figures in NOK)

The fixed salary for each member of the management shall be competitive and based on the individual's experience, responsibilities as well as the results achieved during the previous year. Salaries as well as other benefits shall be reviewed annually, and adjusted as appropriate. The salary for the CEO and executive management has been reduced during 2015.

In addition to their base salary, the Company's management may be granted additional remuneration in the form of a bonus. If a bonus scheme is implemented in 2015, the assessment criteria will be based on both Company's performance and the individual's performance. The targets to be reached by the CEO are to be determined by the Company's Board of Directors. The CEO will set relevant targets for the other members of the management team, based on principles defined by BXPL's Board of Directors. No provision for bonus has been recognized for 2015.

The Company's management will receive payment in kind such as cell phone expenses and payment of IT and telecommunication expenses.

In February 2014, a new share option program for all BXPL employees was implemented. The current management has been allocated 24,000 share options. Each option entitles the option holder to purchase one share at a strike price of NOK 7.51. If, on the exercise day, the market price of the BXPL shares exceeds NOK 50, the exercise price shall be increased by an amount equivalent to 8% of the market price less NOK 50. 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 10 days after publications of the Company's Q1 and Q3 results in 2016 and 2017. CEO Steinar Bakke has been granted 370,000 share options at a strike price of NOK 6.50. 185,000 shares options will vest on the date of the publication of BXPL's Q4 2015 report. A further 185,000 shares options will vest on the date of the publication of BXPL's Q2 2017 report. The exercise of fully vested shares options is at the sole discretion of the option holder.

All members of the management are included in the Company's occupational pension scheme drawn up by BXPL for all its employees. The pension scheme is a defined contribution scheme and contributions range from 4% to 7% of the employee's salary - maximized to a percentage of 12G (NOK 1,080,816). The retirement age for all employees, including management, is 67 years.

**Remuneration policy for members of executive management - Guidelines for 2016:**

The main principle of the Company's remuneration policy for BXPL's management is to offer competitive terms in an overall perspective taking into account salary, payments in kind, bonuses, pension plans and other benefits, to retain key staff.

Management salaries and benefits for 2016 will be based on the principles noted below.

The fixed salary for each member of the management shall be competitive and based on the individual's experience, responsibilities as well as the results achieved during the previous year. Salaries as well as other benefits shall be reviewed annually, and adjusted as appropriate.

In addition to their base salary, the Company's management may be granted additional remuneration in the form of a bonus. If a bonus scheme is implemented in 2016, the assessment criteria will be based on both the Company's performance and the individual's performance. The targets to be reached by the CEO are to be determined by the Company's Board of Directors. The CEO will set relevant targets for the other members of the management team, based on principles defined by BXPL's Board of Directors.

The Company's management will receive payment in kind such as cell phone expenses and payment of IT and telecommunication expenses.

**Note 6 Payroll and related expenses (continues)**

(All figures in NOK)

In February 2014, a new share option program for all BXPL employees was implemented. Each option entitles the option holder to purchase one share at a strike price of NOK 7.51. If, on the exercise day, the market price of the BXPL shares exceeds NOK 50, the exercise price shall be increased by an amount equivalent to 8% of the market price less NOK 50. 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 10 days after publications of the Company's Q1 and Q3 results in 2016 and 2017. Former CEO Steinar Bakke has been granted 370,000 share options at a strike price of NOK 6.50. 185,000 shares options will vest on the date of the publication of BXPL's Q4 2015 report. A further 185,000 shares options will vest on the date of the publication of BXPL's Q2 2017 report. The exercise of fully vested shares options is at the sole discretion of the option holder.

On 15 January 2016, the new CEO Øystein Larsen has been granted 370,000 share options at a strike price of NOK 1.50. 185,000 shares options will vest on the date of the publication of BXPL's Q4 2017 report. A further 185,000 shares options will vest on the date of the publication of BXPL's Q4 2018 report. Upon exercise of the options, the option holder shall pay to the Company a price of NOK 1.50 per option share. If on the exercise day the market price of BXPL's shares is exceeding NOK 25, the exercise price shall be increased by an amount equivalent to 8% of the market price deducting NOK 25. The exercise of fully vested shares options is at the sole discretion of the option holder.

All members of the management are included in the Company's occupational pension scheme drawn up by BXPL for all its employees. The pension scheme is a defined contribution scheme and contributions range from 4% to 7% of the employee's salary - maximized to a percentage of 12G (NOK 1,080,816). The retirement age for all employees, including management, is 67 years.

**Auditor's fee**

(All figures in NOK)

The following table shows remuneration related to professional services rendered by the Company's principal auditor, Ernst & Young AS, for fiscal year 2015 and 2014. The amounts shown are exclusive of value added tax.

	2015	2014
Audit services*	165 000	130 000
Assurance services**	42 691	42 185
Other assistance***	100 538	129 867
<b>Total</b>	<b>308 229</b>	<b>302 052</b>

\* Audit services relate primarily to services provided by Ernst & Young AS for auditing BXPL's financial statements and its internal controls.

\*\* Assurance services include primarily review of the Company's quarterly financial statements and the annual report.

\*\*\* Other assistance relates primarily to other attestation services required under regulatory requirements, advisory services, preparation of tax returns, Going concern assumption review.



**Note 7 Tangible fixed assets**

(All figures in NOK)

	Property, plant & equipment	Total 2015	Property, plant & equipment	Total 2014
Cost price 01.01.	5 793 447	5 793 447	5 764 330	5 764 330
Additions	0	0	29 118	29 118
Disposals	0	0	0	0
Cost price 31.12.	5 793 447	5 793 447	5 793 447	5 793 447
Accumulated depreciations 31.12.	-5 692 515	-5 692 515	-5 492 143	-5 492 143
Accumulated depreciation of disposed asset	0	0	0	0
Currency translation difference	0	0	0	0
<b>Booked value 31.12.</b>	<b>100 933</b>	<b>100 933</b>	<b>301 304</b>	<b>301 304</b>
Depreciation	-200 371	-200 371	-300 883	-501 254
Depreciation rate %:	10% - 33%		10% - 33%	
Economic life (years):	3 - 10		3 - 10	
Depreciation method:	straight line		straight line	

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

BXPL has entered into operating leases for offices and other equipment. The costs are as follows:

Operating leasing costs	2015	2014
Rent costs on buildings	2 019 520	1 979 948
Other	32 551	33 271
<b>Total operating leasing costs</b>	<b>2 052 071</b>	<b>2 013 219</b>

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

	Within 1 year	2-5 years	After 5 years
Operational leasing costs	16 000	0	0
Rent costs on buildings	556 337	0	0
<b>Total</b>	<b>572 337</b>	<b>0</b>	<b>0</b>

The lease agreement for the main office (headquarters) has been entered into for a period of 5 years. This agreement expires on 31 March 2016 and includes an option to extend the agreement for 3+3 years at market conditions.

**Note 8 Intangible assets**

(All figures in NOK)

BXPL has recognised the following intangible assets in the statement of financial position (including internal built up assets such as development costs).

<b>2015</b>	<b>Patents*</b>	<b>Development costs</b>	<b>Total</b>
Cost price 01.01.	400 000	140 217 614	140 617 614
Additions**	0	14 123 964	14 123 964
Government grants	0	-6 573 781	-6 573 781
Cost price 31.12.	400 000	147 767 798	148 167 798
Accumulated depreciations 31.12.	13 332	0	13 332
<b>Book value 31.12.</b>	<b>386 668</b>	<b>147 767 798</b>	<b>148 154 466</b>

\*\* The addition in 2015 consists of external services of NOK 8.162 million, purchase of manufactured parts, components and materials of NOK 0.452 million, internal personnel costs of NOK 5.398 million and travel expenses of NOK 0.112 million for the Badger Explorer development projects.

<b>2014</b>	<b>Patents*</b>	<b>Development costs</b>	<b>Total</b>
Cost price 01.01.	400 000	130 785 242	131 185 242
Additions**	0	24 106 993	24 106 993
Government grants	0	-14 674 620	-14 674 620
Cost price 31.12.	400 000	140 217 614	140 617 614
Accumulated depreciations 31.12.	13 332	0	13 332
<b>Book value 31.12.</b>	<b>386 668</b>	<b>140 217 614</b>	<b>140 604 282</b>

\*\* The addition in 2014 consists of external services of NOK 9.577 million, purchase of manufactured parts, components and materials of NOK 6.336 million, internal personnel costs of NOK 7.587 million and travel expenses of NOK 0.445 million for the Badger Explorer development projects.

There has not been made any depreciation on intangible asset in 2014 and 2015.

All development costs in 2014 and 2015 are related to the development of the Badger Explorer technology in BXPL. The development work contains inherent technology risk and risk related to the funding contributions from the partners. An amount of management focus will continue to be applied to prudent financial management, improved cost-effectiveness and simplification of non-technical activities.

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

**Note 9 Total receivables**

(All figures in NOK)

	2015	2014
Skattefunn & Research Council of Norway receivables	3 108 774	4 595 016
Prepaid expenses	187 192	296 127
Refundable VAT	333 893	499 379
<b>Total receivables</b>	<b>3 629 859</b>	<b>5 390 522</b>

For age distribution of accounts receivables see note 14.

**Note 10 Cash and cash equivalents**

(All figures in NOK)

	2015	2014
Cash at bank	585 953	4 350 500
<b>Total cash at bank</b>	<b>585 953</b>	<b>585 953</b>
Restricted bank deposits for employee withholding taxes	259 771	1 091 589

**Note 11 Share capital and shareholders information**

(All figures in NOK)

Share capital as at 31 December 2015 is NOK 2.317 million, being 18,537,288 ordinary shares at a nominal value of NOK 0.125 each. All share carry equal voting rights.

<b>Number of ordinary shares</b>	2015	2014
01.01.2015	18 537 288	18 537 288
Capital increase	0	0
<b>31.12.2015</b>	<b>18 537 288</b>	<b>18 537 288</b>

# Note 11 Share capital and shareholders information (continues)

(All figures in NOK)

BXPL had 793 shareholders on 31 December 2015. Norwegian entities and individuals held 64.4% of the outstanding shares and the 20 largest shareholders held 60.5% of the outstanding shares. As of 31 December 2015, the 20 largest shareholders were as follows:

	No. of shares	% share
DEUTSCHE BANK AG	2 829 997	15.3 %
TTC INVEST AS	1 306 862	7.0 %
INVESCO PERP EUR SMALL COM	1 225 389	6.6 %
EUROCLEAR BANK S.A.	923 924	5.0 %
HOLBERG NORGE	808 135	4.4 %
SKANDINAVISKA ENSKILDA BANKEN S.A.	615 000	3.3 %
ARGENTUM	523 145	2.8 %
DALVIN RÅDGIVNING AS	426 872	2.3 %
MACAMA AS	355 514	1.9 %
ANØY INVEST DA	278 800	1.5 %
KNUT ÅM	242 600	1.3 %
GJENSIDIGE FORSIKRING	226 472	1.2 %
KJELL ERIK DREVDAL	222 600	1.2 %
NILSHOLMEN INVESTERING AS	209 222	1.1 %
MP PENSJON PK	208 700	1.1 %
ESPELID KARLSTEIN JOHAN	170 000	0.9 %
SIGMUND STOKKA	168 693	0.9 %
BARRA ØYSTEIN	155 748	0.8 %
BAKKE STEINAR	155 000	0.8 %
ØVREBOTTEN SVEIN	155 000	0.8 %
20 largest shareholders	11 207 673	60.5 %
773 other shareholders	7 329 615	39.5 %
<b>Total of 793 shareholders</b>	<b>18 537 288</b>	<b>100%</b>

**Note 11 Share capital and shareholders information (continues)**

(All figures in NOK)

The following members of the Board of Directors and member of executive management hold shares as of 31 December 2015:

	2015	2014
Skandinaviska Enskilda Banken S.A. Luxembourg (Chairman - Marcus Hansson)	565 000	565 000
Dalvin Rådgivning AS (CFO - Gunnar Dolven)*	426 872	301 872
Nilsholmen Investering AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	209 222	209 222
President & CEO - Steinar Bakke*	155 000	30 000
Nilsholmen AS (Sr. VP Bus. Dev. & Strategy - Kjell Markman)	20 200	20 200
Chairman - 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>1 400 962</b>	<b>1 150 962</b>
% of total shares	7.6 %	6.2 %

\*On 20 August 2015, BXPL's CEO Steinar Bakke purchased 125,000 shares in BXPL at a price of NOK 1.35 per share. CEO of Dalvin Rådgivning AS, Mr. Gunnar Dolven purchased 125,000 in BXPL at a price of NOK 1.35 per share.

**Board of Director's mandate to increase the share capital**

The Board of Directors holds two authorisations to issue shares in the Company resolved by the Annual General Meeting on 5 May 2015. These authorisations are valid until the next Annual General Meeting to be held in 2016 with an ultimate expiry date on 30 June 2016. The first authorization is provided for increasing the Company's share capital with up to NOK 115,858 by way of issuance of up to 926,864 shares in connection with the issuance of shares to employees, directors and others connected with the Company as part of the Company's share incentive scheme and the share issue against payment in other cash payment (contribution). The second authorization is provided for increasing the Company's share capital with up to NOK 231,716 by way of issuance of up to 1,853,728 shares in conjunction with the issuance of shares to existing shareholders and new investors for a cash deposit or cash contributions and mergers.

**Note 12 Transactions with related parties**

(All figures in NOK)

The following table provides the total amount of transactions that have been entered into with related parties controlled by the members of executive management of BXPL for the relevant financial year. The purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions.

Transactions with related parties	2015	2014
Purchased services	2 515 589	4 411 106

In June 2013, BXPL entered into a consultancy agreement with two of its largest shareholders, Dalvin Rådgivning AS and Nilsholmen AS. During 2015, payments totalling NOK 1.124 million were made to Dalvin Rådgivning AS in respect of performed consultancy services and NOK 13,188 related to travel expenses. Mr. Gunnar Dolven, who is CFO of BXPL, is a director of Dalvin Rådgivning AS. In 2015, Nilsholmen AS, a company owned by Mr. Kjell Markman, received payments of NOK 1.319 million in respect of performed consultancy services and NOK 59,574 related to travel expenses. Mr. Markman is Sr. VP Business Development & Strategy of BXPL.

For transactions with Severn Subsea Technologies Ltd. and Mr. Nigel Halliday please refer to note 17.



**Note 13 Conditional commitments**

(All figures in NOK)

**Contribution recognised as capitalised grants in the statement of financial position**

BXPL has received contributions from the industry partners amounting to NOK 75.000 million whereas NOK 66.520 million were received prior to 2015. These contributions shall be repaid to the partners by paying 5% royalty of all technology related sales in the future. This royalty is limited to a total of 150% of received contributions.

**Note 14 Financial risk management objectives and policies**

(All figures in NOK)

BXPL is exposed to foreign currency exchange risk, interest rate risk, credit risk and liquidity risk.

The Company's management oversees the management of these risks and assures that BXPL's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken. The Board of Directors reviews and agrees on policies for managing each of these risks which are summarised below.

**Foreign currency exchange risk**

The Company's cash reserves of NOK 585,953 are deposited in the Norwegian bank Sparebanken Vest. All the Company's financial instruments are in a Norwegian Kroner (NOK) functional currency. When commercial operations in larger scale commence, a foreign currency exchange risk policy will be introduced.

**Interest rate risk**

The Company's financial income and financial cost in the income statement are both influenced by changes in interest rates. BXPL's interest rate risk is mainly related to funding in USD. The Company has NOK 450,308 in net financial loss as of 31 December 2015. The Company's debt to financial institutions carries fixed interest rate of 4.95%. In addition, there is a yearly commission of 1.0% on the credit line. As of 31 December 2015, NOK 6.711 million has been drawn on the overdraft facility.

**Credit risk**

BXPL trades only with recognised, creditworthy third parties. It is the Company's policy that all customers that wish to trade on credit terms are subject to credit verification procedures. All cash in the Company is deposited in the Norwegian bank Sparebanken Vest. Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk.

**Liquidity risk**

BXPL monitors its liquidity on a regular basis, and produces rolling liquidity forecast on a monthly basis in order to identify liquidity requirements in future periods. The target for BXPL's management of liquidity risk is to maintain a liquidity corresponding to its net liquidity requirements for 12 months.

**Note 14 Financial risk management objectives and policies (continues)**

(All figures in NOK)

The cash position of BXPL at year end 2015 was NOK 585,953, compared to NOK 4.351 million in 2014. At year-end 2015, the Company has withdrawn NOK 6.711 million of the total overdraft facility of NOK 7.500 million. The main cash inflow during 2016 is Skattefunn 2015 tax deduction (NOK 2.547 million), the remaining RCN's grants (NOK 6.171 million) and the Badger Development Program partner funding from Statoil for the Milestone 1 (NOK 5.000 million). The Company believes it will have sufficient funds to continue its ongoing operations during 2016 and meet its obligations, if Statoil and CNPC DR join the Development Program. As of 27 April 2016, the signatures from Statoil and CNPC DR for the Development Program are still pending. In January 2016, CNPC DR signed MoU indicating their intent to support the Development Program. In April 2016, Statoil confirmed their intent to support the Development Program. The level of technical progress is dependent upon the level of funding from the partners. Contingencies for 2016 include overdraft facility with the Company's bank and accelerated release of government grants and partner funding.

Cash level will be carefully managed during 2016. The Badger Development Program will contribute to operational funding in 2016. In Q1 2016, Statoil approved the first and second key deliverables of Milestone 1 of the Badger Development Program, which released NOK 5.000 million. Technical progress on the HPHT ultrasonic project will release funding from awarded grants. As of 22 April 2016, the Company has withdrawn NOK 4.604 million of the total overdraft facility of NOK 7.500 million. BXPL is in breach of the financial covenants in the current credit facility, ref. note 15.

The table below shows a maturity analysis for BXPL's total short term liabilities:

<b>2015</b>	within 3 months	within 6 months	within 9-12 months
Accounts payable	3 077 545	0	0
Public duties payables	474 324	0	0
Debt financial institutions (due as a result of breach of covenants ref. note 15)	6 711 379	0	0
Other short term liabilities	371 820	628 907	0
<b>2014</b>	within 3 months	within 6 months	within 9-12 months
Accounts payable	2 394 292	0	0
Public duties payables	1 650 303	0	0
Other short term liabilities	131 383	994 378	0

**Capital management**

BXPL's main objective for the management of its capital structure is to maximise value creation for shareholders, while at the same time maintaining a sound financial position and a good credit rating.

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

BXPL monitors its capital structure using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, debt financial institutions, trade and other payables, less cash and short-term deposits.

**Note 14 Financial risk management objectives and policies (continues)**

	2015	2014
Debt financial institutions	6 711 379	0
Trade and other payables	4 552 596	5 170 356
Bank deposits	-585 953	-4 350 500
<b>Net debt</b>	<b>10 678 022</b>	<b>819 856</b>
Equity	66 207 237	78 956 260
<b>Total capital</b>	<b>66 207 237</b>	<b>78 956 260</b>
<b>Capital and net debt</b>	<b>76 885 259</b>	<b>79 776 116</b>
Gearing ratio	13.9 %	1.0 %
Equity ratio	43.4 %	52.4 %

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

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	585 953	585 953	4 350 500	4 350 500
Current receivables	3 629 859	3 629 859	5 390 522	5 390 522
<b>Financial liabilities</b>				
Debt financial institutions	6 711 379	6 711 379	0	0
Trade and other payables	4 552 596	4 552 596	5 170 356	5 170 356

**Age distribution of receivables**

As at 31 December 2015, the ageing analysis of receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
<b>2015</b>	3 629 859	3 629 859	0	0	0	0	0
<b>2014</b>	5 390 522	5 390 522	0	0	0	0	0

**Note 15 Debt financial institutions**

(All figures in NOK)

	2 015	2 014
<b>Short term liabilities</b>		
<b>Debt financial institutions</b>	6 711 379	0

BXPL entered into a revolving credit facility with its Norwegian bank Sparebanken Vest on 22 August 2012 that provides for borrowings of up to NOK 7.500 million with a fixed interest rate of 4.95%. In addition, there is a yearly commission of 1.0% on the credit line. As of 31 December 2015, NOK 6.711 million has been drawn on the overdraft facility. Financial covenants: equity - not be less than NOK 75.000 million and should exceed more than 50% of the book equity ratio. The book equity less intangible assets must be positive. Accounts receivable - must exceed 75% of the withdrawn credit facility. Financial review - quarterly financial statement submission to the bank. The overdraft facility of NOK 7.500 million with Sparebanken Vest is in breach with the agreed covenants as of 31 December 2015 and also as of 31 March 2016.

**Note 16 Other short term liabilities**

(All figures in NOK)

	2 015	2 014
<b>Other short term liabilities</b>		
Unpaid vacation pay	628 907	994 378
Other accrued costs	181 297	131 383
Other short term liabilities*	190 522	0
<b>Total other short term liabilities</b>	<b>1 000 727</b>	<b>1 125 761</b>

\* Other short term liabilities include outstanding balance payable to CNPD DR for having two Chinese engineers working at Badger Explorer ASA's HQ from May to September in 2015.

**Note 17 Investment in shares**

(All figures in NOK)

**Severn Subsea Technologies Ltd.**

On 28 June 2013, BXPL divested its 70% interest of Severn Subsea Technologies Ltd. (SST) to Severn Glocon for a net amount of NOK 7.189 million with a loss of NOK 1.120 million in the Group. Upon settling the completion accounts, BXPL realised a further loss of NOK 838,350 accounted for in December 2013.

On 15 December 2014, Severn Glocon acquired another 15% of the shares for consideration of £1 giving a loss of NOK 156,802. Loss arising from the partial disposal of investment in the associated company was recognised in the income statement. 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. BXPL holds 15% of shares in SST as of 31 December 2015.

**Note 17 Investment in shares (continues)**

(All figures in NOK)

**Carrying amount movements in the Statement of Financial Position of BXPL for the period ended 31 December 2015:**

Carrying amount of 30% interest retained on 31 December 2013	2 700 624
30% share of net result in the associate for the period 1 January - 15 December 2014	-2 387 020
Sale of 15% of shares on 15 December 2014	-156 802
Impairment of the remaining 15% of shares in SST booked in 2014	-156 802
Closing balance for the period ended 31 December 2015	0

Transactions with Severn Subsea Technologies Ltd.	2015	2014
Accounts payable*	0	16 092
Purchased services*	7 109	1 871 500

\* The Company purchased engineering- and production services from SST. Mr. Nigel Halladay (previous MD of Calidus Engineering Ltd.) owns 75,500 shares in BXPL. All purchased services from SST in 2014 and 2015 are related to the development project in BXPL.

**Note 18 Events after the balance sheet date**

(All figures in NOK)

The cost decrease throughout 2015 was driven by the current market challenges and uncertainty with respect to future oil prices. BXPL has significantly reduced its cost structure to align with anticipated lower activity level. Effective from 1 January 2016 until further notice, the executive management of BXPL has implemented a temporary salary reduction by 15% for all employees as a result of budgetary constraints.

On 20 January 2016, Mr. Øystein Larsen was appointed new CEO of BXPL. Mr. Larsen has previously held the position as CTO of BXPL and has been working for the Company since 2009. Mr. Steinar Bakke, former CEO of BXPL, will assume the position as Senior Advisor focusing on sponsoring partners and industrial partnerships.

On 11 January 2016, Mr. Bakke has purchased 45,473 shares in BXPL at a price of NOK 0.95 per share. The total holding of Mr. Bakke's shares, after this transaction, is 200,437 shares.

No other events have taken place after the reporting period that would have affected the financial statements or any assessments carried out.

**Note 19 Assessment of going concern**

(All figures in NOK)

The annual financial statements have been prepared on the basis of the going concern assumption. The Board of Directors confirms the going concern assumption to be present but the Board assess the current liquidity situation as very tight. Additional funding is required within a short period of time to carry on the future development of the Badger tool. As of April 27, 2016, signatures from CNPC DR for the Badger Development Program are pending, and as a result the funding from both sponsors, Statoil and CNPC DR, is uncertain. In addition, the Company is in breach of the financial covenants in the current credit facility, ref. note 15. The Board assessed the uncertainties for pending signatures of sponsors in the Badger Development Program and corresponding liquidity risk, causing significant doubt about the Company's ability to continue as a going concern. Reference is also made to note 14 "Liquidity risk" and note 15 "Debt financial institutions" for additional information.



## Auditor's report



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To the Annual Shareholders' Meeting of  
Badger Explorer ASA

### AUDITOR'S REPORT

#### Report on the financial statements

We have audited the accompanying financial statements of Badger Explorer ASA, which comprise the statement of financial position as at 31 December 2015, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended, a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditor's responsibility*

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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*Opinion*

In our opinion, the financial statements of Badger Explorer ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

*Emphasis of matter*

According to Note 19 and information in the Board of Director's report, the current liquidity situation is very tight. These conditions, along with other matters as set forth in Note 19, Note 14 and the Board of Director's report, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. The financial statement has been prepared under the assumption of going concern and realization of assets and settlement of debt in normal operations. No provisions or write-downs have been made for any losses that may occur if this assumption is no longer present. Our opinion is not qualified in respect of this matter.

**Report on other legal and regulatory requirements***Opinion on the Board of Directors' report*

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

*Opinion on registration and documentation*

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

Stavanger, 27 April 2016

ERNST &amp; YOUNG AS

Tommy Lothe  
State Authorised Public Accountant (Norway)

## **Badger Explorer ASA Annual Report 2015**

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## **Badger Explorer ASA**

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