

BOARD OF DIRECTORS' REPORT FOR 2015

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 Axxess list) in 2007.

Badger Explorer ASA's head office is located at Prof. Olav Hanssensvei 15, 4068 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 31st 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 ¹	152.5	150.6
Total Equity	66.2	78.9
Equity Ratio	43.4%	52.4%
Total Intangible Assets ²	148.2	140.6
Total Investments in Shares ³	0	0
Share Capital ⁴	2.3	2.3

Total Liabilities ⁵	86.3	71.7
Debt financial institutions ⁶	6.7	0
Net Cash Position ⁷	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 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 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 11th February 2016. These guidelines are available on the Company's website (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 30th October 2014 (www.nues.no). The Board reviews the Corporate Governance Policy annually and approved the latest version on 11th February 2016 which can also be found on the Company's website (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 17th 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 31st 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.


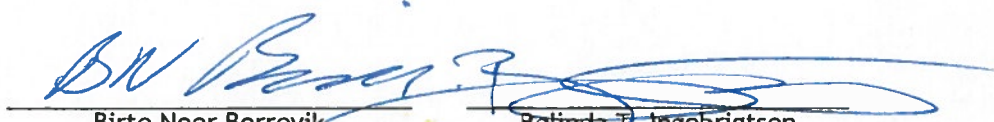
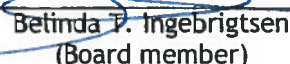
The main focus for the BXPL organization in 2016 will be to secure participation from current and possibly new partners and continue the execution of the Badger Development Program.

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, 27th 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

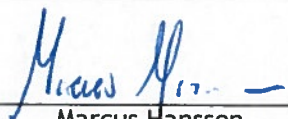
Responsibility statement

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.

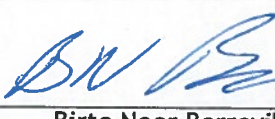
We also confirm, to the best of our knowledge that the Board of Directors' report includes a true and fair overview of the development, performance and financial position of Badger Explorer ASA, together with a description of the principal risks and uncertainties they face.

Stavanger, 27th April 2016

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



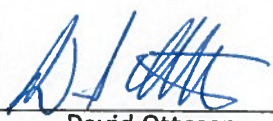
Marcus Hansson
(Chairman of the Board)



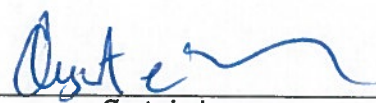
Birte Noer Borrevik
(Board member)



Betinda T. Ingebrigtsen
(Board member)



David Ottesen
(Board member)



Øystein Larsen
CEO