



BADGER
EXPLORER



Semi-annual Report H1 2016

HIGHLIGHTS Q2 2016

Technical progress Q2 2016

On 8th July, Statoil approved the final key deliverable of Milestone 1 of the Badger Explorer Development Program; long term qualification testing of a cuttings transport system developed in conjunction with Honeybee Robotics (US). The system was operated for several hundred hours, and increased the confidence to the system.

The first parts of Milestone 1, qualification of high power High Pressure High Temperature [HPHT] Transducers for the drilling and compaction systems in the Badger Explorer, and function testing of the cuttings transport system were completed in Q4 2015 and Q1 2016.

Installation and function testing of ultrasonic transducers in a custom built test setup have started at the University of Glasgow. The tests will commence as soon as possible, and will provide important knowledge about compaction efficiency under realistic conditions.

The company has managed to keep expenses low for Q2 2016 while at the same time delivering important technical results.

Sponsoring Partners

On April 8th BXPL received a Letter of Intent from Statoil where they express their intent to support the project going forward. The negotiations with CNPC-DR are still ongoing, and BXPL are actively working with several levels in their organization. CNPC-DR confirms their intention to join the Badger Explorer Development Program, but the process has taken much longer than anticipated.

Spin-off applications and international oil service companies

Partnership dialogues with international oilfield service companies are still ongoing but the current business climate have had a serious impact on their ability to start new projects.

The Badger Explorer Development Program

The Badger Explorer Development Program has been formulated to mature and qualify robust solutions for the following components of the Badger Explorer concept

- Drilling
- Cuttings transport
- Compaction
- Locomotion

Important, positive results regarding Cuttings transport and Compaction were delivered in 2015 and so far in 2016. Badger Explorer has also started the development of a new drilling system for the Badger Explorer tool, and will continue this work during 2016.

FINANCIALS

Investor Relations

Badger Explorer ASA had 792 shareholders on 30th June 2016. Norwegian entities and individuals held 65.5% of the outstanding shares and the 20 largest shareholders held 60.5% of the outstanding shares.

Badger Explorer ASA

The staff of Badger Explorer ASA consisted of 4 full-time employees as of 30th June 2016, compared to 9 employees as of 30th June 2015.

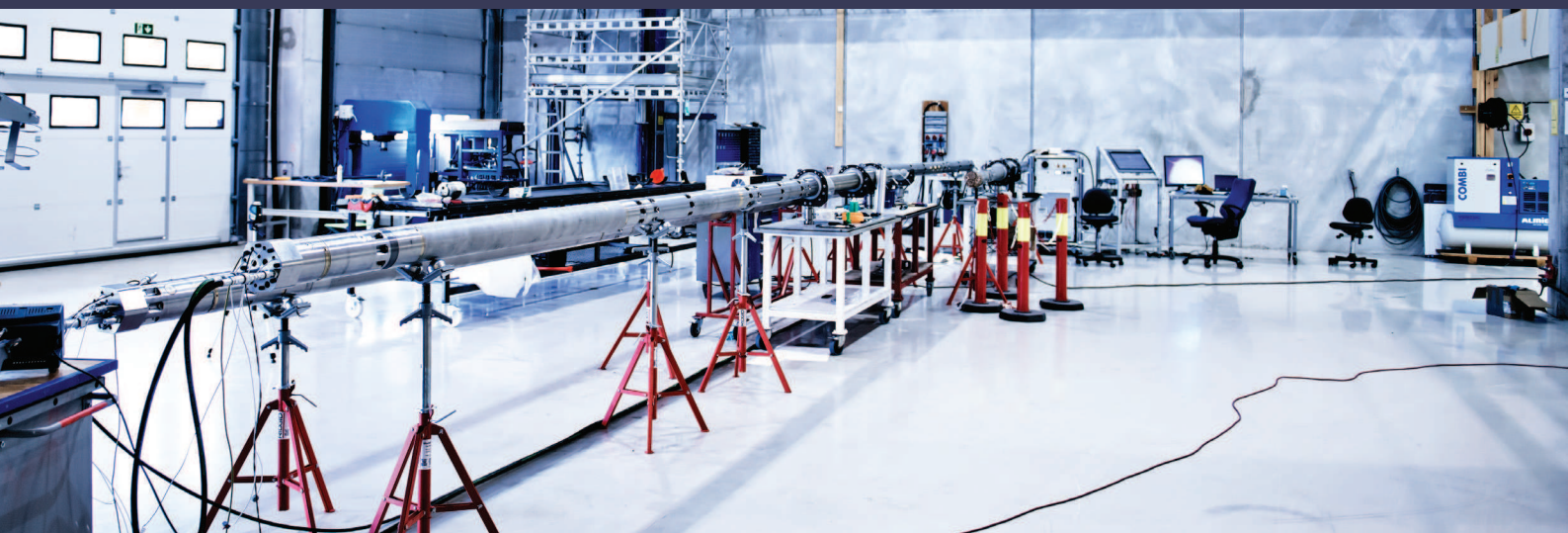
Equal opportunities and fair treatment of personnel

As of 1st July 2016, Badger Explorer ASA had 4 permanent employees, of whom 2 are female. In order to succeed, the Company is dependent upon engaging the best competence available and, hence, competence must be sourced where it is available. However, the Company emphasizes the importance of maintaining a balance and distribution of gender, equal compensation for similar work and equal opportunities for everyone in the Company. The staff is multinational representing four nationalities.

Main Figures

Revenues for Q2 2016 were NOK 41,600 and NOK 41,600 for H1 2016, compared to NOK 0.00 for Q2 2015 and NOK 0.00 for H1 2015. Operating expenses for Q2 2016 were NOK 1.312 million and NOK 3.010 million for H1 2016, compared to NOK 3.515 million for Q2 2015 and NOK 7.550 million for H1 2015.

EBITDA for Q2 2016 was NOK -1.270 million and NOK -2.969 million for H1 2016, compared to NOK -3.515 million for Q2 2015 and NOK -7.550 million for H1 2015.



Total development costs of the Badger Explorer project in Q2 2016 were NOK 2.215 million, of which NOK 1.872 million was capitalized. For H1 2016, development costs were NOK 3.062 million, of which NOK 2.473 million was capitalized. Total development costs of the Badger Explorer project in Q2 2015 were NOK 3.227 million, of which NOK 2.706 million was capitalized. For H1 2015, total development costs were NOK 8.078 million, of which NOK 6.630 million was capitalized.

Capitalized public grants for the Badger Explorer project were NOK 705,942 for Q2 2016 and NOK 1.109 million for H1 2016, compared to NOK 1.524 million for Q2 2015 and NOK 3.402 million for H1 2015.

Earnings per share amounted to NOK -0.08 per share for Q2 2016 and NOK -0.18 for H1 2016, compared to NOK -0.20 per share for Q2 2015 and NOK -0.43 for H1 2015.

The cash position at BXPL was NOK 286,594 as of 30th June 2016, compared to NOK 857,282 as of 30th June 2015. As of 30th June 2016, BXPL had a net equity of NOK 62.652 million (equity ratio of 41.1%), compared to NOK 71.305 million as of 30th June 2015 (equity ratio of 46.8%).

Net cash flow arising from the operating activities for Q2 2016 was NOK -1.990 million and NOK -4.311 million for H1 2016, compared to NOK -4.042 million for Q2 2015 and NOK -4.963 million for H1 2015. Net cash outflow includes payments to vendors for goods and services received.

Net cash flow arising from the investment activities for Q2 2016 was NOK -1.872 million and NOK -2.473 million for H1 2016, compared to NOK -2.706 million for Q2 2015 and NOK -6.630 million for H1 2015. Net cash flow from investment activities was negative, mainly reflecting the development costs related to the Badger Explorer Development project, which are eligible for capitalization.

Net cash flow arising from the financing activities for Q2 2016 was NOK 3.820 million and NOK 6.485 million for H1 2016, compared to NOK 6.524 million for Q2 2015 and NOK 8.100 million for H1 2015. Net cash inflows in the Q2 2016 include payment for Milestone 1 from Statoil, also public grants from RCN. Due to the contributions from the industry partners and public grants, net cash flow from financing activities was a positive in 2016 and 2015. Cash outflows include repayment of a credit facility to Sparebanken Vest. Total net changes in cash flow for Q2 2016 were NOK -41,745 and NOK -299,106 for H1 2016, compared to NOK -224,500 for Q2 2015 and NOK -3.492 million for H1 2015.

SUMMARY

Unaudited figures in NOK 1000	Quarters			Year to date	
	Q2 2016	Q1 2016	Q2 2015	30.06.2016	30.06.2015
Revenues	42	0	0	42	0
Operating expenses	1 312	1 698	3 515	3 010	7 550
EBITDA	-1 270	-1 698	-3 515	-2 969	-7 550
Earnings per share	-0.08	-0.10	-0.20	-0.18	-0.43
Projects development costs	2 215	1	3 227	3 062	8 078
Public grants for projects development	706	403	1 524	1 109	3 402
Capitalization of development costs and public grants	1 166	198	1 183	1 364	3 228

Risk considerations

For a company dependent on ground breaking technological development, it is of the utmost importance to continuously monitor and analyze the risks, and manage them in a professional manner. BXPL continuously works to reduce the risk elements that could influence its success, through steady progress in the development project, securing competence, skills and capacities, securing cost control and cash management, and through funding and robust partnerships.

The risk elements highlighted in the Annual Report for 2015 were:

- Liquidity
- Foreign currency exchange rate
- Interest rate
- Credit
- Technology in relation to the Badger Explorer
- Competing technologies
- The oil service market
- Authorities' permission
- Environmental aspects

The elements listed above are still regarded as the main risk factors for the Company, although their relative priorities have been revised. To support and secure the ongoing technical development plan, BXPL has implemented processes to monitor cash tightly.

Cost efficient solutions are sought on technical deliveries. Furthermore, concrete steps have been taken during H1 2016 to secure more funding and to release such cash. The most important steps implemented:

- Implemented cost-cutting initiatives to improve both efficiency and effectiveness
- Satisfied the specific requirements to release committed public grants and steps to accelerate the transfer of such funding.

The cash monitoring will remain an important task.

OUTLOOK

The long term qualification test of the cuttings transport system represents a significant step forward for BXPL. One of the main challenges with the Badger concept has been solved, thus significantly reducing the technology risk for the commercial Badger tool.

The work to develop and qualify solutions for the rest of the challenges with the Badger concept will continue.

Negotiations with existing and new oil company sponsors are on-going.

Stavanger, 7th September 2016
The Board of Directors
Badger Explorer ASA

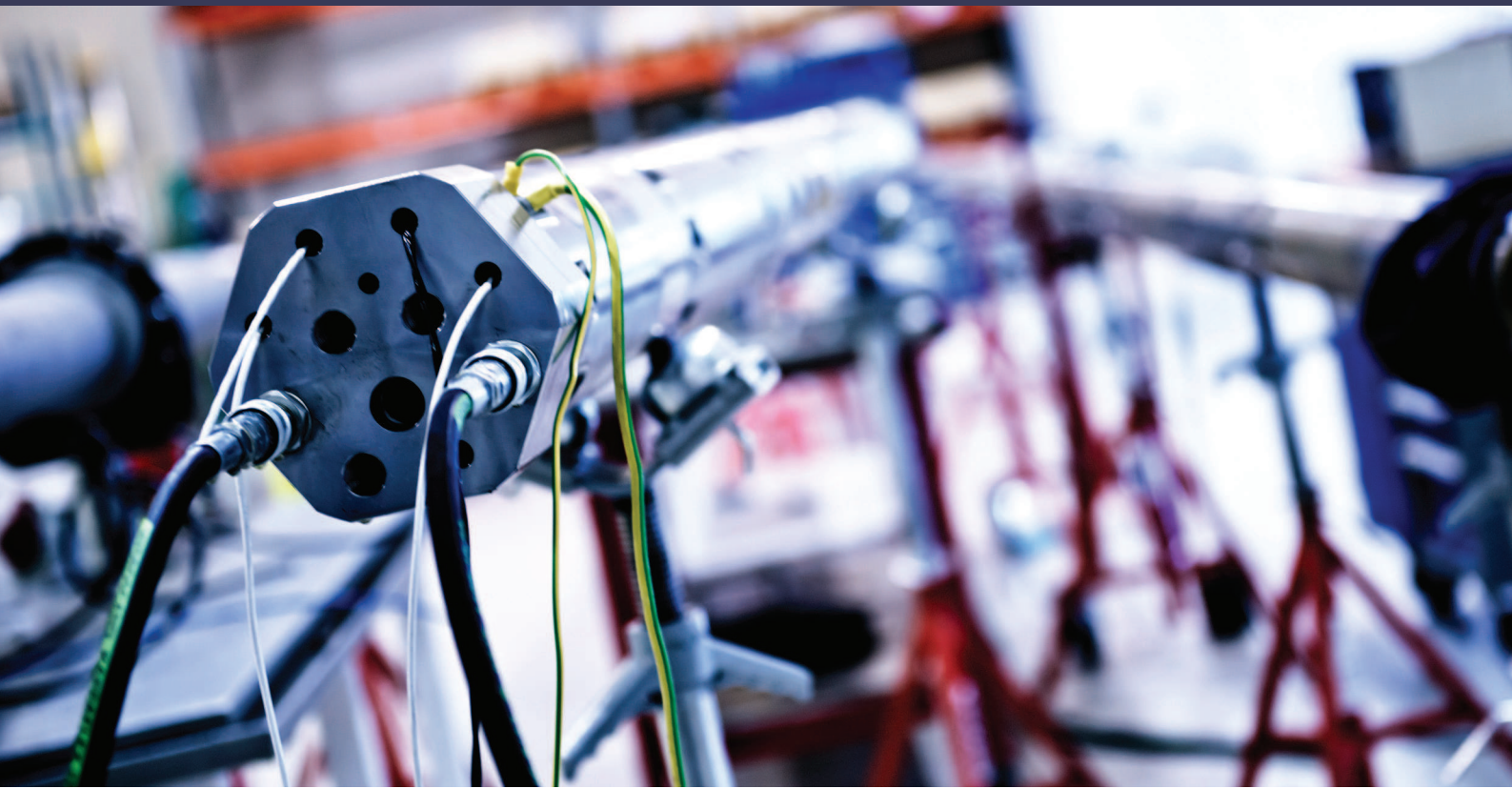

Marcus Hansson
(Chairman of the Board)


Birte Noer Borrevik
(Board member)


Belinda T. Ingebrigtsen
(Board member)


David Ottesen
(Board member)


Roald Valen
(CEO)



RESPONSIBILITY STATEMENT

The Board of Directors and the CEO confirm that to the best of their knowledge the condensed set of financial statements (unaudited) for the first half year of 2015, which have been prepared in accordance with IAS 34 - Interim Financial Reporting, gives a true and fair view on the Group's consolidated assets, liabilities, financial position and results of the operation for the period, and that the interim management report includes a fair review of the information required under the Norwegian Securities Trading Act section 5-6 fourth paragraph.

Stavanger, 7th September 2016
The Board of Directors
Badger Explorer ASA


Marcus Hanson
(Chairman of the Board)


Birte Noer Borrevik
(Board member)


Belinda T. Ingebrigtsen
(Board member)


David Ottesen
(Board member)


Roald Valen
(CEO)

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 Prof. Olav Hanssensvei 15, 4021 Stavanger, Norway.

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

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

From 28 June 2013, 30% of the shares in SST were owned by BXPL. The investment in SST was initially recognised at fair value at the effective date of the sale from 100% to 30% of the shares. Subsequent measurement of the remaining 30% of the shares was recognised according to equity method. On 15 December 2014, Severn Glocon acquired 15% of the shares in SST. On 18 April 2016, Severn Glocon acquired another 15% of the shares in SST for a sale consideration of GBP 1. BXPL holds no shares in SST as of 30 June 2016.

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

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

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

The interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements as of 31 December 2015.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the financial statements as of 31 December 2015.

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

Financial assets within the scope IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate.

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

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

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs are added.

Financial liabilities include trade and other payables, loans and borrowings.

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

Cash includes cash in hand and at bank.

Accounts receivable are recognised in the statement of financial position at nominal value less provisions for doubtful debts. Fixed assets are carried at cost less accumulated depreciations and impairment losses.

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

Depreciation is calculated using the straight-line method.

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

Development expenditures related to the Badger Explorer development project are recognised as an intangible asset when BXPL can demonstrate:

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

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

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

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

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

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

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

Contributions from partners are recognised in the statement of financial position under long term liabilities as the contributions are subject to repayment ref. note 13 in BXPL annual accounts.

The share options granted in 2014 were replaced with new share options. On 15 March 2016, the Board of Directors of BXPL implemented a new share options program for BXPL employees offering a total of 190,000 share options at a strike price of NOK 1.80 and NOK 370,000 share options at a strike price of NOK 1.50, corresponding to 3% of all outstanding BXPL shares. The options granted will be vested in tranches and can be exercised between three and ten days after publications of the Company's Q4 2017 and Q4 2018 results in 2018 and 2019. A total of 560,000 of the outstanding 745,000 share options were "in the money" on 30 June 2016. Previously issued share options were cancelled.

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

INCOME STATEMENT

Unaudited figures in NOK 1000	Quarters			Note	Year to date		Year End
	Q2 2016	Q1 2016	Q2 2015		30.06.2016	30.06.2015	31.12.2015
Revenues							
Other Income	42	0	0		42	0	0
Total Revenues	42	0	0		42	0	0
Operating Expenses							
External services for development project	1 185	111	1 666		1 296	3 734	8 726
Payroll and related costs	750	1 081	1 775		1 830	5 055	9 921
Other operating expenses	1 249	1 108	2 781		2 357	5 391	8 083
Capitalized development costs	-1 872	-601	-2 706		-2 473	-6 630	-14 124
Total Operating Expenses	1 312	1 698	3 515		3 010	7 550	12 606
EBITDA	-1 270	-1 698	-3 515		-2 969	-7 550	-12 606
Depreciation	37	43	49		80	109	200
Operating profit (loss)	-1 307	-1 741	-3 565		-3 049	-7 659	-12 807
Net financial income (loss)	-129	-113	-126	3,10	-242	-227	-450
Profit (loss) before taxes	-1 436	-1 855	-3 691		-3 291	-7 886	-13 257
Tax on ordinary result	0	0	0		0	0	0
Net profit (loss)	-1 436	-1 855	-3 691		-3 291	-7 886	-13 257
Profit (loss) attributable to equity holders of the parent	-1 436	-1 855	-3 691		-3 291	-7 886	-13 257
Earnings per share	-0.08	-0.10	-0.20		-0.18	-0.43	-0.72
Earnings per share diluted	-0.08	-0.10	-0.20		-0.18	-0.42	-0.71

STATEMENT OF COMPREHENSIVE INCOME

Unaudited figures in NOK 1000

	Quarters			Year to date	
	Q2 2016	Q1 2016	Q2 2015	30.06.2016	30.06.2015
Total comprehensive income					
Profit (loss) for the year (period)	-1 436	-1 855	-3 691	-3 291	-7 886
Other comprehensive income - items that will later be reclassified to profit and loss					
Translation differences	0	0	0	0	0
Comprehensive income at end of period	-1 436	-1 566	-3 691	-3 291	-7 886

	Quarters			Year to date	
	Q2 2016	Q1 2016	Q2 2015	30.06.2016	30.06.2015
Total comprehensive income attributable to:					
Equity holders of the parent	-1 436	-1 855	-3 691	-3 291	-7 886
Non-controlling interest	0	0	0	0	0
Total comprehensive income	-1 436	-1 566	-3 691	-3 291	-7 886

STATEMENT OF FINANCIAL POSITION

ASSETS (Unaudited figures in NOK 1000)	30.06.2016	31.03.2016	30.06.2015	Note	31.12.2015
NON-CURRENT ASSETS					
Capitalized development costs	149 132	147 966	143 446	2,6	147 768
Patent rights	387	387	387		387
Total intangible assets	149 519	148 352	143 832		148 154
Property, plant & equipment	21	58	192		101
Total tangible assets	21	58	192		101
Investments in shares	0	0	0	3,10	0
Total investments in shares	0	0	0		0
TOTAL NON-CURRENT ASSETS	149 539	148 410	144 025		148 255
CURRENT ASSETS					
Accounts receivables	6	0	0	6	0
Other receivables	2 518	5 982	7 320		3 630
Total receivables	2 524	5 982	7 320		3 630
Cash and cash equivalents	287	329	857		586
TOTAL CURRENT ASSETS	2 811	6 310	8 177		4 216
TOTAL ASSETS	152 350	154 721	152 202		152 471
EQUITY AND LIABILITIES (Unaudited figures in NOK 1000)	30.06.2016	31.03.2016	30.06.2015	Note	31.12.2015
EQUITY					
Share capital	2 317	2 317	2 317	3	2 317
Share premium	218 070	218 070	218 070	4	218 070
Other paid in capital	3 903	3 848	3 895	3	4 167
Total paid in equity	224 290	224 235	224 282		224 555
Retained earnings	-161 638	-160 202	-152 977		-158 347
Total retained earnings	-161 638	-160 202	-152 977		-158 347
TOTAL EQUITY	62 652	64 032	71 305		66 207
LIABILITIES					
Capitalized grants	79 500	79 000	75 000	6	75 000
Total non-current liabilities	79 500	79 000	75 000		75 000
Accounts payables	2 847	2 793	2 768	3,8	3 078
Public duties payables	180	962	32		474
Debt financial institutions	6 820	6 928	1 967	11	6 711
Other short term liabilities	351	1 005	1 129		1 001
Total current liabilities	10 198	11 688	5 896		11 264
TOTAL LIABILITIES	89 698	90 688	80 896		86 264
TOTAL EQUITY AND LIABILITIES	152 350	154 721	152 202		152 471

STATEMENT OF CHANGE IN EQUITY

Unaudited figures in NOK 1000

	Note	Share capital	Share premium	Other paid in capital	Retained earnings	Non-controlling interest	Total equity
Equity as of 31.12.2015		2 317	218 070	4 167	-158 347	0	66 207
Total comprehensive income					-3 291		-3 291
Option plan payment	5			-265			-265
Equity as of 30.06.2016		2 317	218 070	3 903	-161 638	0	62 652

STATEMENT OF CASH FLOW

	Quarters				Year to date		Year end
Unaudited figures in NOK 1000	Q2 2016	Q1 2016	Q2 2015	Note	30.06.2016	30.06.2015	31.12.2015
Contribution from operations*	-1 215	-2 018	-3 444		-3 233	-7 314	-12 098
Change in accounts receivables and accounts payables	47	-284	969	3,8	-237	1 874	683
Change in other receivables and payables	-822	-19	-1 567		-841	477	-936
Net cash flow from operating activities	-1 990	-2 321	-4 042		-4 311	-4 963	-12 351
Capitalization of development cost	-1 872	-601	-2 706	2	-2 473	-6 630	-14 124
Net cash flow from investment activities	-1 872	-601	-2 706		-2 473	-6 630	-14 124
Public grants	2 057	562	1 733	1	2 619	3 405	8 060
Contribution from industry partners	2 000	2 000	2 950	6	4 000	6 890	8 390
Interest received	18	0	8		19	36	54
Interest paid	-147	-114	-134		-261	-263	-505
Proceeds from borrowings financial institution	-108	216	1 967	11	109	-1 967	6 711
Net cash flow from financing activities	3 820	2 665	6 524		6 485	8 100	22 711
Total net changes in cash flow	-42	-257	-225		-299	-3 492	-3 764
Cash and cash equivalents beginning of period	329	586	1 082		586	4 351	4 351
Cash and cash equivalents end of period	287	329	857		287	857	586
Profit (loss) attributable to equity holders of the parent	-1 436	-1 855	-3 691		-3 291	-7 886	-13 256
Employee options	55	-320	71	5	-265	236	508
Depreciation	37	43	49		80	109	200
Financial income	-18	-0	-8		-19	-36	-54
Financial expenses	147	114	134		261	263	505
*Contribution from operations before tax	-1 215	-2 018	-3 444		-3 233	-7 314	-12 098

NOTES

1. Badger Explorer ASA (BXPL) has previously received public grants from the Research Council of Norway (RCN), Innovation Norway and Skattefunn for the Badger Explorer Development Program. The projects of the Badger Explorer Development Program are funded with a percentage of the total project costs. As of 30 June 2016, RCN has through its PETROMAKS2-program granted NOK 2.057 million funding for the development of HPHT ultrasonic system.
2. The public grants and all project development costs of BXPL, related to the Badger Explorer Development Program, are capitalized in accordance with the IFRS regulations, except of NOK 343,314 as per 30 June 2016. These additional project costs are related to the restriction on capitalization of own personnel costs in the IFRS standard.
3. From 28 June 2013, 30% of the shares in Severn Subsea Technologies Ltd. (SST) were owned by BXPL. The investment in SST was initially recognised at fair value at the effective date of the sale from 100% to 30% of the shares. Subsequent measurement of the remaining 30% of the shares was recognised according to equity method. On 15 December 2014, Severn Glocon acquired 15% of the shares in SST. On 18 April 2016, Severn Glocon acquired another 15% of the shares in SST for a sale consideration of GBP 1. BXPL holds no shares in SST as of 30 June 2016.
4. On 9 May 2007, the General Assembly decided to split the existing shares which increased a number of shares from 6,719,520 to 13,439,040. A total of 5,000,000 additional shares were issued in connection with the IPO of NOK 160,000,000 related to the listing of Badger Explorer ASA on the Oslo Stock Exchange on 12 June 2007. The total number of shares as at 30 June 2016 is 18,537,288 at par value of NOK 0.125 per share.
5. The share options granted in 2014 were replaced with new share options. On 15 March 2016, the Board of Directors of BXPL implemented a new share options program for BXPL employees offering a total of 190,000 share options at a strike price of NOK 1.80 and NOK 370,000 share options at a strike price of NOK 1.50, corresponding to 3% of all outstanding BXPL shares. The options granted will be vested in tranches and can be exercised between three and ten days after publications of the Company's Q4 2017 and Q4 2018 results in 2018 and 2019. A total of 560,000 of the outstanding 745,000 share options were "in the money" on 30 June 2016. Previously issued share options were cancelled.

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

On 16 September 2013, Mr. Steinar Bakke took on the position as President and CEO. Upon commencement of the employment, Mr. Bakke was granted 370,000 share options in BXPL at a strike price of NOK 6.50 per share. 185,000 share options vested on the date of the publication of the Company's Q4 2015 report. A further 185,000 share options forfeited due to the resignation from his position on 29 February 2016. The remaining 185,000 share options were "out of the money" on 30 June 2016.

On 15 January 2016, 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 share options were "in the money" on 30 June 2016.

6. BXPL received contributions from the following industry partners for the Badger Explorer Demonstrator Program: Statoil, ExxonMobil Exploration and Production Norway AS, Shell Technology Norway AS (the previous Prototype Program partner), Chevron Energy Technology Company, Wintershall Norge AS and China National Petroleum Corporation Drilling Research Institute (CNPC DR). A total of NOK 79.500 million of the contribution shall be repaid to the partners by paying 5% royalty of all technology related sales in the future. This royalty is limited to 150% of received contribution.

On 4 January 2016, the first key deliverable of Milestone 1, qualification of high power HPHT Transducers for the drilling and compaction systems in the Badger Explorer, was completed and approved by Statoil, which released funding of NOK 2.500 million (incl. VAT).

On 16 March 2016, Statoil approved the second key deliverable of Milestone 1, function testing and verification of a cuttings transport system developed in conjunction with Honeybee Robotics (US). In consideration of the approval of the deliverable, BXPL received NOK 2.500 million (incl. VAT).

On 8 July 2016, Statoil approved the third key deliverable of Milestone 1, long term testing of the cuttings transport system. The approval released NOK 2.500 million (incl. VAT). BXPL also received NOK 625,000 (incl. VAT) for the first of three planned test series related to compaction experiments at University of Glasgow, drilling of formation samples, hardware, training and installation.

7. Deferred tax asset has not been recognised in the statement of financial position.

8. Related party transactions

Unaudited figures in NOK 1000

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

Transactions with related party	30.06.2016	30.06.2015
Purchases of services*	875	1 757

* In June 2013, BXPL entered into a consultancy agreement with two of its largest shareholders - Dalvin Rådgivning AS and Nilsholmen AS. As of 30 June 2016, payments totalling NOK 380,000 were made to Dalvin Rådgivning AS in respect of performed consultancy services and NOK 9,928 related to travel expenses. Mr. Gunnar Dolven, who is a CFO of BXPL, is a director of Dalvin Rådgivning AS. As of 30 June 2016, Nilsholmen AS, a company owned by Mr. Kjell Markman who is a Sr.VP Business Development & Strategy of BXPL, received payments of NOK 345,000 in respect of performed consultancy services.

In January 2016, BXPL entered into a consultancy agreement with the former Company's CEO and its shareholder Mr. Steinar Bakke. As of 30 June 2016, payments totalling NOK 137,598 were made to S. Bakke Consulting AS in respect to performed consultancy services and NOK 2,809 related to travel expenses.

Shares held by members of the Board of Directors and members of the Management Group	30.06.2016	30.06.2015
SEB Private Bank S.A. Luxembourg (Chairman of the Board - Marcus Hansson)	565 000	565 000
Dalvin Rådgivning AS (CFO - Gunnar Dolven)	426 872	301 872
Nilsholmen Investering AS (Sr. VP Business Development & Strategy - Kjell Markman)	209 222	209 222
Senior Advisor - Steinar Bakke	200 473	30 000
Nilsholmen AS (Sr. VP Business Development & Strategy - Kjell Markman)	20 200	20 200
Chairman of the Board - Marcus Hansson	11 668	11 668
CFO - Gunnar Dolven	8 000	8 000
Ordinary shares	1 441 435	1 145 962
% of total shares	7.8 %	6.2 %

9. Fair value hierarchy

On 18 April 2016, BXPL has disposed its remaining 15% shareholding in SST.

10. Investments in shares

Unaudited figures in NOK 1000

On 28 June 2013, BXPL entered into the Share Purchase Agreement (Agreement) with Severn Glocon, whereby BXPL sold 84 shares pursuant to the Agreement representing 70% of the issued share capital of its subsidiary SST for the equivalent of NOK 7.189 million with a loss of NOK 1.120 million in the Group. Upon settling the Completion Accounts, BXPL realized a further loss of NOK 838,350 accounted for in December 2013. The partial divestment of shares in 2013 was treated as discontinued operations in accordance with IFRS 5.

Under the Agreement, Severn Glocon acquired 15% of the shares on 15 December 2014. On 18 April 2016, Severn Glocon acquired another 15% of the shares in SST for a sale consideration of GBP 1. BXPL holds no shares in SST as of 30 June 2016.

Carrying amount movements in the statement of financial position of BXPL for the period ended 30 June 2016:

Carrying amount of 30% interest retained as of 31 December 2013	2 701
30% shares of net result in the associate for the period 1 January - 15 December 2014	-2 387
Sale of 15% of shares on 15 December 2014	-157
Impairment of the remaining 15% shares in SST booked in 2014	-157
Closing balance for the period ended 30 June 2016	0

11. Revolving credit facility

BXPL has entered into a revolving credit facility with its Norwegian bank Sparebanken Vest on 22 August 2012 that provides for borrowings of up to NOK 7.500 million with an interest rate of 4.95%. In addition, there is a yearly commission of 1.0% on the credit line. As of 30 June 2016, NOK 6.820 million has been drawn on the overdraft facility. Interest incurred of NOK 98,974 have been repaid during Q2 2016. 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 30 June 2016.

12. Going concern

The quarterly 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 7 September 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 11. 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.

Badger Explorer ASA
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