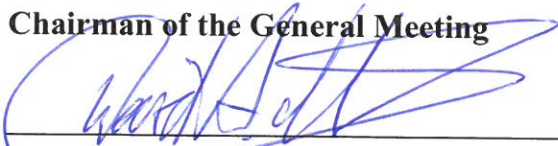


**Bayerngas Danmark ApS  
Central Business Registration No  
31627117**

**Annual report 2015**

The Annual General Meeting adopted the annual report on 17.03.2016

**Chairman of the General Meeting**



Name: David A. Munch

## Contents

	<u>Page</u>
Entity details	1
Statement by Management on the annual report	2
Independent auditor's reports	3
Management commentary	5
Accounting policies	9
Income statement for 2015	13
Balance sheet at 31.12.2015	14
Statement of changes in equity for 2015	16
Notes	17

## **Entity details**

### **Entity**

Bayerngas Danmark ApS  
Rådhuspladsen 16  
1550 København V

Central Business Registration No: 31627117

Registered in: København

Financial year: 01.01.2015 - 31.12.2015

### **Board of Directors**

Arne Westeng, Chairman

Trond Bjerkan

Hilde Boysen

### **Executive Board**

Trond Bjerkan, director

### **Auditors**

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

Postboks 1600

0900 København C

## Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Bayerngas Danmark ApS for the financial year 01.01.2015 - 31.12.2015.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2015 and of the results of its operations for the financial year 01.01.2015 - 31.12.2015.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Oslo, 09.03.2016

### Executive Board



Trond Bjerkan  
director

### Board of Directors



Arne Westeng  
Chairman



Trond Bjerkan



Hilde Boysen

## **Independent auditor's reports**

### **To the owners of Bayerngas Danmark ApS**

#### **Report on the financial statements**

We have audited the financial statements of Bayerngas Danmark ApS for the financial year 01.01.2015 - 31.12.2015, which comprise the accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines 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 the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires 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 misstatements 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 of financial statements that give a true and fair view 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 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.

Our audit has not resulted in any qualification.

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31.12.2015 and of the results of its operations for the financial year 01.01.2015 - 31.12.2015 in accordance with the Danish Financial Statements Act.

#### **Emphasis of matter affecting the financial statements**

We draw attention to Note 1 in the financial statements describing the material uncertainty relating to the determination of the recoverable value of the Hejre field.

Further, we draw attention to Note 1 in the financial statements which indicate that the company is dependent of further financing in order to complete the development of existing projects and continue operations.

Our opinion is not modified in respect of these matters.

#### **Statement on the management commentary**

Pursuant to the Danish Financial Statements Act, we have read the management commentary. We have not performed any further procedures in addition to the audit of the financial statements.

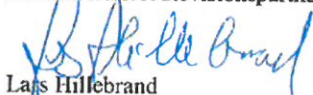
On this basis, it is our opinion that the information provided in the management commentary is consistent with the financial statements.

## Independent auditor's reports

København, 09.03.2016

**Deloitte**

Statsautoriseret Revisionspartnerselskab



Lars Hillebrand

State Authorised Public Accountant

## Management commentary

### Primary activities

#### The Business

Bayerngas Danmark ApS ("The Company") is an oil and gas exploration and field development company registered in Denmark. The Company holds ownership in four licenses on the Danish Continental Shelf; 15% in license 5/98 (Hejre), 12% in license 1/06 (Hejre Extension), 30% in license 4/98 (Solsort) and 30 % in license 3/09 (Solsort). Dong E&P is the operator of all these licenses.

The Company is a 100% owned subsidiary of Bayerngas Norge AS.

#### Continued Operations

The financial statements have been presented based on the assumption of continued operations, and the Board of Directors confirms that the prerequisites for this assumption are present. The basis for this evaluation by the Board of Directors is the Company's plans for investment, progress in the Hejre development project, long-term cash flow prognoses and a continued commitment by the shareholder and ultimate shareholders to finance the Company's activities.

The Company is dependent on the availability of financing from its parent to fulfil its ongoing obligations as they fall due. Bayerngas Norge AS has expressed their intention of continued financial support and is working with the management and the board of Bayerngas Danmark ApS to establish further financing, subject to formal approval from the board of Stadtwerke München GmbH.

#### Main Activities in 2015

In license 5/98-Hejre, the main activity in 2015 has been the execution of the Hejre field development project. Main activities performed in 2015 have been drilling of the production wells, HA-2 and HA-3, with the drilling rig Mærsk Resolve. The results of the first 3 production wells drilled have been below PDO planning basis. The platform topside processing plant engineering, procurement and fabrication continues, but is still suffering from insufficient progress and consequently severe delays in 2015. The production start is now forecasted to July 2018. Affected contracts for support service and heavy lift have been amended accordingly.

In the Solsort licences 4/98 and 3/09, the main activities in 2015 have been declaration of commerciality and a subsequent grant of 30 years production licence (conditional on delivery of PDO within June 2017) for the parts of PL 4/98 and PL 3/09 that covers the Solsort discovery. The area of licence 4/98 that is outside the area covered by the production licence has been relinquished. The part of licence 3/09 that is outside the production licence has been granted a 2 year extension. The Solsort and Syd Arne licensees have in 2015 entered into a unit agreement for the production licence area. Bayerngas Danmark ApS holds 27,66% in the Solsort unit. Studies to explore tie-in possibilities for Solsort development and tie-in negotiations have been performed.

## **Management commentary**

### **Development in activities and finances**

The Company is financed by loans from its parent company and has no debt to external financial institutions. The owner converted debt to equity in 2015, and the Company has an equity ratio of minus 47% at year-end.

As the Company's assets are in the exploration and development phase, the Board of Directors will monitor the Company's financial position during 2016. Necessary actions will be taken by the Board of Directors if the Company's financial position indicates that additional equity is needed.

### **Profit/loss for the year in relation to expected developments**

Net loss for the year is MDKK 1.462, compared to MDKK 442 in 2014. The negative result is mainly due to impairment of the Hejre asset.

It is the Board of Directors' opinion that the financial statements, which include income statement, balance sheet and notes, give a true and fair view of the state of the affairs of the company.

### **The Company's Financial Position**

The Company does not have any sales revenue yet and is currently financed by loans from its affiliates and has no debt to external financial institutions. The shareholder acknowledges the need to increase the equity and will therefore intend to convert loan into equity within Q1 2016 to ensure a satisfactory equity ratio. Future financing of the Company shall be based on contribution of equity from its shareholder Bayerngas Norge AS.

### **Outlook**

The construction of the Hejre topside processing plant and pre-drilling of wells will continue throughout 2016. Installation of the topside is planned in 2017. With the forecasted production start mid 2018, the delay is close to 3 years compared to original plans. There will be continued attempts to settle the schedule for the remaining part of the project, including further negotiations with the relevant contractors for the EPC platform topside. The final tie-ins of the subsea pipelines will take place in the summer of 2016.

Discussions are currently ongoing regarding the feasibility of continuing with current plan for Hejre. A modified plan will however, represent a significant shift and is only attractive if it improves value creation.

In 2016 the Solsort licensees plan to conclude concept selection for development by year end.

### **Particular risks**

#### *Business risks*

Development of gas and oil fields implies risks, such as finding and applying feasible solutions, both economically and technically. There are also uncertainties related to production capacity, reserves, geological conditions, future oil and gas prices and currency exchange rates.



## Management commentary

### *Financial risks*

The Company is currently financed 100% by its affiliated companies through loans and equity. Bayerngas Norge AS is committed to providing further financing of the Company's activities in 2016. The Board of Directors does not consider the Company to be exposed to any significant credit risk or liquidity risk.

### *Insurance risk*

The Company has standard insurance coverage related to exploration activities on the Danish Continental Shelf, including damages related to environmental pollution.

### *Reserve estimates*

Expected reserves are used as basis for impairment testing in Bayerngas. Expected reserves are the estimated remaining commercially recoverable quantities from projects in operation or justified for development based on Bayerngas judgement of future economic conditions. Recoverable oil and gas quantities are always uncertain, and the expected value is the weighted average of possible outcomes (the statistical mean from probabilistic estimates or the best technical estimate if only deterministic methods have been applied). Expected oil and gas reserves have been estimated by Bayerngas professionals using standard industry practices.

### *Hejre project*

The Hejre field continues to be a challenging development project. Expected production start has been further delayed. In addition to continued decline in oil and gas prices during 2015, the expected reserve volumes on Hejre were adjusted downward, and cost estimates to complete the project have increased. The management has estimated recoverable amount on the Hejre field based on its best judgement and emphasizes the uncertainty relating to the Hejre project.

### **Allocation of financial statement**

The Board of Directors recommends that the Company allocate the 2015 net loss for the year as presented in the income statement.

### **Intellectual capital resources**

The Bayerngas Norge Group is an equal opportunity employer and practices full gender equality. One of two employees is female (50%). The Board of Directors has three members, one of which is female (33%). The Managing Director is male.

### **Staff**

The Company had two employees in 2015.

The Board of Directors is not aware of any incidents or accidents under the responsibility of the Company that might have caused injury or environmental damage during 2015.

## **Management commentary**

### **Corporate social responsibility**

Corporate social responsibility policies of the parent company and its subsidiaries are commented on in the annual report of the parent company Bayerngas Norge AS.

### **Events after the balance sheet date**

Discussions are currently ongoing regarding the feasibility of continuing with the current plan for Hejre. A modified plan will however, represent a significant shift and is only attractive if it improves value creation.

## **Accounting policies**

### **Reporting class**

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied for these financial statements are consistent with those applied last year.

### **Recognition and measurement**

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

### **Foreign currency translation**

The Company's functional currency is DKK. Foreign currency transactions are recorded using exchange rates on the date of the transaction. Monetary items denominated in foreign currencies are converted to DKK using exchange rates at the balance sheet date. The resulting realized and unrealized currency gains and losses are included in the income statement.

### **Income statement**

#### **Other operating income**

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

#### **Costs of raw materials and consumables**

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary write-downs of the relevant inventories.

## Accounting policies

### Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes write-downs of receivables recognized in current assets.

### Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

### Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year. Calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

### Research and development (R&D)

R&D cost is expensed as incurred.

### Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises.

### Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises.

## Balance sheet

### Intellectual property rights etc

The cost of exploration licenses are capitalized as an intangible asset and includes cost such as external fees directly attributable to the acquisition of licenses.

Exploration costs needed to determine whether there are deposits of oil and gas.

Exploration expenses for the development of wells where there is evidence of hydrocarbon reservoir are recognized at cost as intangible asset. When a decision on field development is made, exploration cost is transferred to development projects in progress under intangible fixed assets.

Licenses and exploration cost is amortized based on production method from the time the field is put into operation, not exceeding 20 years.

## Accounting policies

For exploration licenses acquisition cost is impairment-tested based on a potential value assessment, whereby estimated recoverable resources are assigned a value per barrel.

### Property, plant and equipment

Maintenance and repairs are expensed as incurred. Significant costs incurred in order to increase production capacity or extend the useful economic life of production facilities are capitalized

The Company follows the "Successful Efforts" method in accounting for exploration and development costs. All exploration costs, with the exception of drilling costs of exploration wells, are charged to expense as incurred. Exploration wells are capitalized until we see that they have no commercial potential. Wells without commercial potential are expensed.

Fields in production is depleted based on the Units of Production (UoP) method. Goodwill is amortised over five years on a straight-line basis. Equipment and furniture are depreciated on a straight line basis over the expected useful life per asset. Useful life is typically three to five years.

Fixtures and fittings are measured at cost less accumulated depreciation.

Depreciation of fixtures and fittings straight-line basis over the estimated useful life of 3-5 years.

Depreciation and impairment losses are recognized under production costs, exploration costs and administrative expenses. Gains and losses on disposal of fixed assets included in the income statement.

Tangible fixed assets are written down to the recoverable amount if this is lower than the carrying amount. An impairment test of each individual asset or group of assets is carried out if there is evidence of impairment.

### Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

### Receivables

Receivables are measured at amortised cost, usually equaling nominal value less write-downs for bad and doubtful debts.

## **Accounting policies**

### **Prepayments**

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

### **Other provisions**

Other provisions comprise of abandonment obligations.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

### **Operating leases**

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

### **Other financial liabilities**

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

**Income statement for 2015**

	<u>Notes</u>	<u>2015 DKK'000</u>	<u>2014 DKK'000</u>
Other operating income		5.908	2.134
Costs of raw materials and consumables		(32.995)	(31.493)
Other external expenses		(18.201)	(19.719)
<b>Gross profit/loss</b>		<b>(45.288)</b>	<b>(49.078)</b>
Staff costs		(2.021)	(2.772)
Depreciation, amortisation and impairment losses		(1.337.000)	(319.000)
<b>Operating profit/loss</b>		<b>(1.384.309)</b>	<b>(370.850)</b>
Other financial income	2	17.470	17.238
Other financial expenses	3	(94.908)	(88.391)
<b>Profit/loss for the year</b>		<b>(1.461.747)</b>	<b>(442.003)</b>
<b>Proposed distribution of profit/loss</b>			
Retained earnings		(1.461.747)	(442.003)
		<u>(1.461.747)</u>	<u>(442.003)</u>

# Balance sheet at 31.12.2015

	Notes	2015 DKK'000	2014 DKK'000
Development projects in progress		186.895	190.689
<b>Intangible assets</b>	4	<b>186.895</b>	<b>190.689</b>
Property, plant and equipment in progress		476.307	1.193.153
<b>Property, plant and equipment</b>	5	<b>476.307</b>	<b>1.193.153</b>
<b>Fixed assets</b>		<b>663.202</b>	<b>1.383.842</b>
Raw materials and consumables		51.896	35.762
<b>Inventories</b>		<b>51.896</b>	<b>35.762</b>
Receivables from group enterprises		11.731	15.927
Other short-term receivables		114.458	82.429
Prepayments		1.291	1.313
<b>Receivables</b>		<b>127.480</b>	<b>99.669</b>
<b>Current assets</b>		<b>179.376</b>	<b>135.431</b>
<b>Assets</b>		<b>842.578</b>	<b>1.519.273</b>



# Balance sheet at 31.12.2015

	Notes	2015 DKK'000	2014 DKK'000
Contributed capital	6	1.625	1.025
Share premium		1.756.500	1.157.100
Retained earnings		(2.154.242)	(692.495)
<b>Equity</b>		<b>(396.117)</b>	<b>465.630</b>
Other provisions		111.766	10.896
<b>Provisions</b>		<b>111.766</b>	<b>10.896</b>
Payables to group enterprises		454.575	878.416
Other payables		334.432	0
<b>Non-current liabilities other than provisions</b>		<b>789.007</b>	<b>878.416</b>
Debt to group enterprises		222.836	22.528
Other payables		115.086	141.803
<b>Current liabilities other than provisions</b>		<b>337.922</b>	<b>164.331</b>
<b>Liabilities other than provisions</b>		<b>1.126.929</b>	<b>1.042.747</b>
<b>Equity and liabilities</b>		<b>842.578</b>	<b>1.519.273</b>
Going concern	1		
Contingent liabilities	7		
Related parties with control	8		

## Statement of changes in equity for 2015

	Contri- buted capi- tal DKK'000	Share premium DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	1.025	1.157.100	(692.495)	465.630
Increase of capital	600	599.400	0	600.000
Profit/loss for the year	0	0	(1.461.747)	(1.461.747)
<b>Equity end of year</b>	<b>1.625</b>	<b>1.756.500</b>	<b>(2.154.242)</b>	<b>(396.117)</b>

## Notes

### 1. Going concern

The financial statements have been presented based on the assumption of continued operations, and the Board of Directors confirms that the prerequisites for this assumption are present. The basis for this evaluation by the Board of Directors is the Company's plans for investment, progress in the Hejre development project, long-term cash flow prognoses and a continued commitment by the shareholder and ultimate shareholders to finance the Company's activities.

The Company is dependent on the availability of financing from its parent to fulfil its ongoing obligations as they fall due. Bayerngas Norge AS has expressed their intention of continued financial support and is working with the management and the board of Bayerngas Danmark ApS to establish further financing, subject to formal approval from the board of Stadtwerke München GmbH.

The construction of the Hejre topside processing plant and pre-drilling of wells will continue throughout 2016. Installation of the topside is planned in 2017. With the forecasted production start mid 2018, the delay is close to 3 years compared to original plans. There will be continued attempts to settle the schedule for the remaining part of the project, including further negotiations with the relevant contractors for the EPC platform topside. The final tie-ins of the subsea pipelines will take place in the summer of 2016.

Discussions are currently ongoing regarding the feasibility of continuing with current plan for Hejre. A modified plan will however, represent a significant shift and is only attractive if it improves value creation.

The Company does not have any sales revenue yet and is currently financed by loans from its affiliates and has no debt to external financial institutions. The shareholder acknowledges the need to increase the equity and will therefore intend to convert loan into equity within Q1 2016 to ensure a satisfactory equity ratio. Future financing of the Company shall be based on contribution of equity from its shareholder Bayerngas Norge AS.

### 2. Other financial income

Exchange rate adjustments  
Other financial income

2015 DKK'000	2014 DKK'000
11.801	17.364
5.669	(126)
<u>17.470</u>	<u>17.238</u>

## Notes

	2015 DKK'000	2014 DKK'000
<b>3. Other financial expenses</b>		
Financial expenses from group enterprises	78.869	72.203
Other financial expenses	16.039	16.188
	<b>94.908</b>	<b>88.391</b>
<b>4. Intangible assets</b>		<b>Develop- ment pro- jects in progress DKK'000</b>
Cost beginning of year		190.690
Disposals		(3.795)
<b>Cost end of year</b>		<b>186.895</b>
<b>Carrying amount end of year</b>		<b>186.895</b>
<b>5. Property, plant and equipment</b>		<b>Property, plant and equipment in progress DKK'000</b>
Cost beginning of year		1.512.153
Additions		620.154
<b>Cost end of year</b>		<b>2.132.307</b>
Depreciation and impairment losses beginning of the year		(319.000)
Impairment losses for the year		(1.337.000)
<b>Depreciation and impairment losses end of the year</b>		<b>(1.656.000)</b>
<b>Carrying amount end of year</b>		<b>476.307</b>

An impairment of MDKK 1.337 has been recorded for the Hejre field in 2015. Impairment of fields under development is based on NPV calculations using a weighted average cost of capital of 13% (nominal after tax).

Furthermore the impairment is based on the assumption of oil prices between 274 DKK/bbl and 603 DKK/bbl and an estimated exchange rate between 6,86 DKK/USD and 7,23 DKK/USD during the period.

## Notes

	2015 DKK'000	2014 DKK'000	2013 DKK'000	2012 DKK'000	2011 DKK'000
<b>6. Contributed capital</b>					
<b>Changes in contributed capital</b>					
Contributed capital beginning of year	1.025	475	425	425	425
Increase of capital	600	550	50	0	0
<b>Contributed capital end of year</b>	<b>1.625</b>	<b>1.025</b>	<b>475</b>	<b>425</b>	<b>425</b>

## 7. Contingent liabilities

Bayerngas Danmark ApS, which holds participating interest in four licenses for production and exploration of oil and natural gas, is committed by approved work programmes for exploration and development of these licenses to make significant investments in coming years. Bayerngas Danmark ApS' share of commitments related to exploration and development according to license agreements is estimated to MDKK 1.583 on 31.12.2015.

As part of the 5/98 Hejre development project, a fractionation facility has been built at the Fredericia terminal in Denmark. Dong Oil Pipe A/S, operator of Fredericia terminal, has been responsible for the construction of the facility and the Hejre license is obliged to pay the cost over the production period of the field. However, if the Hejre field is not in production by March 2019, Dong Oil Pipe A/S has a right to require payment of the total cost of the facility, around 300 000 kDKK (Company's share)

## 8. Related parties with control

Bayerngas Norge AS, a related party based in Oslo, Norway, owns all the shares of the Company, and therefore has a controlling interest in the Company.