Hess Denmark ApS

Østergade 26B, DK-1100 København K

Annual Report for 1 January - 31 December 2016

CVR No 73 58 91 18

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 18/5 2017

Brian Truelove
Chairman

Contents

Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Hess Denmark ApS for the financial year 1 January - 31 December 2016.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and of the results of the Company operations for 2016.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 18 May 2017

Executive Board

Anders Nymann

Board of Directors

Brian D. Truelove Chairman	Martin Edwards	Anders Nymann
Timothy B. Goodell		

Independent Auditor’s Report

To the Shareholders of Hess Denmark ApS

Opinion

We have audited the financial statements of Hess Denmark ApS for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management’s Review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Independent Auditor’s Report

Management’s Responsibilities 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.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Frederiksberg, 18 May 2017
Ernst & Young
Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

Lissen Fagerlin Hammer State Authorised Public Accountant	Peter Andersen State Authorised Public Accountant

Company Information

The Company	Hess Denmark ApS Østergade 26B DK-1100 København K Telephone: + 45 33 30 12 33 Facsimile: + 45 33 30 12 99 Website: www.hess.com CVR No: 73 58 91 18 Financial period: 1 January - 31 December Financial year: 33rd financial year Municipality of reg. office: Copenhagen
Board of Directors	Brian D. Truelove, Chairman Martin Edwards Anders Nymann Timothy B. Goodell
Executive Board	Anders Nymann
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 DK-2000 Frederiksberg

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2016	2015	2014	2013	2012
	USD '000	USD '000	USD '000	USD '000	USD '000
Key figures					
Profit/loss					
Revenue	182,456	219,651	428,234	346,058	347,723
Profit/loss before financial income and expenses	-39,146	5,512	186,548	196,714	216,650
Net financials	-10,766	-6,507	-12,019	-19,363	-17,508
Net profit/loss for the year	-142,690	-193,437	85,187	470,397	144,794
Balance sheet					
Balance sheet total	1,113,399	1,408,240	1,580,196	1,481,777	954,172
Equity	652,339	795,029	988,466	903,279	432,882
Investment in property, plant and equipment	37,293	235,675	232,469	211,711	182,951
Number of employees	117	120	116	116	112
Ratios					
Return on assets	-3.5%	0.4%	11.8%	13.3%	22.7%
Solvency ratio	58.6%	56.5%	62.6%	61.0%	45.4%
Return on equity	-19.7%	-21.7%	9.0%	70.4%	40.2%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Main activity

The main activity of Hess Denmark ApS is to be the Operator of the South Arne field under license 7/89 with an equity share of 61.51572%.

Market overview and development in the year

The Hess Denmark ApS share of production from the South Arne field during 2016 averaged 13.2 thousand barrels of oil equivalent per day, a 6% decrease over 2015 production, which is a result of natural production decline.

In 2016, Hess Denmark completed the Phase 3 development project, which was sanctioned November 2010. Two new wells were brought on-line on Wellhead Platform North (WHP-N), completing the 11 well program. Well SAN-09 came on-line in January, one month ahead of schedule. Well SAN-10 experienced completion complication but came online in May, a one month delay.

Furthermore, on October 14th, a long-awaited key milestone for continued value creation through South Arne has been achieved. Hess Denmark received license extension approval from the Danish Energy Authority to further development South Arne into 2047, an award of an additional 20 years.

In line with Hess Denmark ApS' commitment to the development of the Danish hydrocarbon sector, Hess Denmark ApS was awarded two new explorations related to the 7th Bid Round on April 6th:

•License 6/16 (Jill / Danielle) - Hess operated
•License 16/16 (Nattergal) - DONG operated

The company is in the process of collaborating with partners to fulfill the explorations commitments.

As a consequence of the low oil price, Hess Denmark ApS is not expected to fully utilize its deferred tax assets over the license period based on forecasted income. Hess Denmark ApS has a net deferred tax asset for Chapter 3A tax (hydrocarbon tax) and a net deferred tax liability for Chapter 2 tax (corporation tax). Chapter 2 and 3A taxes cannot be set-off against each other. Consequently, the deferred tax asset for Chapter 3A tax has been de-recognized, and that deferred tax liability for Chapter 2 continues to be recognized. This has affected the year's tax charges materially resulting in a tax expense in the profit and loss account. All taxes are regarding Danish activities and paid to Danish tax authorities.

The company's revenue for 2016 was USD 182,456 thousand with a net loss after tax of USD 142,690 thousand which was heavily impacted by a one-off tax charge for the de-recognition of deferred tax assets (see note 1). The company delivered a cash flow of USD 65,536 thousand despite low oil prices. The company balance sheet as at 31 December 2016 shows equity of USD 652,339 thousand after a proposed dividend of USD 0 thousand. The company's oil is sold on the world market in USD. Associated gas is sold to DONG Energy A/S at the offshore delivery point.

Management’s Review

Future development

In the current low price environment, the company will continue to focus on optimizing operational efficiency and costs in order to better manage sustainable cash flow. For the longer-term horizon, Hess Denmark ApS is working to mature other opportunities for future investment, underpinned by the award of the license extension and the 7th Bid Round licenses.

The past year and follow-up on development expectations from last year

2016 year-end results were lower than expectations. Sustained low price conditions continue to weigh on the Company’s overall profitability and this is expected to continue in 2017, but with an increase in revenue and an improved pre-tax result.

Special risks - operating risks and financial risks

Market risks

As the company produces and sells crude oil it is exposed to fluctuating oil prices.

Foreign exchange risks

The operating costs of the company are primarily in DKK and are therefore exposed to currency Exchange rate fluctuations.

Environment and safety

Hess Denmark ApS aims to be compliant at all times with all Danish EHS Regulations, Corporate EHS Standards and Industry Guidelines and Recommended Practices. The company strives to ensure its operations and activities are carried out is a safe and responsible manner with no harm to people or damage to the environment. The company’s Occupational Health and Safety Management System is OHSAS 18001 certified and the Environmental Management system is ISO14001 certified.

Corporate Social Responsibility

Regarding the Danish Financial Statements Act § 99 a, the Company has no policies of its own for Corporate Social Responsibility, including policies on human rights, environment and climate. Hess Corporation has chosen to make policies at corporate level and not for the separate local entities.

For more information about our ultimate owner, Hess Corporation’s work on sustainability, see the website of Hess Corporation: http://www.hess.com/sustainability

Management's Review

Diversity

Board of Directors:

Hess wants to encourage diversity and create equal opportunities for all. Hess Denmark ApS has prepared a policy to ensure an increased proportion of females on the Board of Directors. No later than by 2017, at least one of the members elected by the general assembly to the board of directors should be female. Hess Denmark continues to maintain a female member on the board of directors.

Management Team:

In prior years, Hess Denmark had a policy of having 25% of the management team by to be filled by females by 2015. However, to be in line with our parent company, Hess Corporation, this year we will no longer have a target policy on the share of female within the management team. Gender diversity is still a key aspiration for our operation in Denmark, and in 2016 we have continued our focus on always giving male and female equal opputunies in connection with hiring and promotion. In the pursuit of recruitment and talent development, professional and managerial competences are, however, always the determining factors in connection with hiring and promotion. For more information about our parent company, Hess Corporation's position and progress on diversity, read more about the effort within our annually published Corporate Sustainability Report at: http://www.hess.com/sustainability

Intellectual capital resources

Hess is committed to creating a work environment that encourages continual learning and development for all employees. We want a diverse and inclusive workforce where everyone grows, builds capabilities, experiences new challenges and sharpens skills. Development at Hess is ideally a mix of on-the-job experiences, coaching and mentoring, and formal education.

Uncertainty relating to recognition and measurement

In light of the current low price environment, Hess Denmark ApS has performed various sensitivity analysis for the asset impairment test. We refer to note 1.

Subsequent events

There are no material events post balance sheet date.

Income Statement 1 January - 31 December

	Note	2016	2015
		USD '000	USD '000
Revenue	2	**182,456**	**219,651**
Cost of sales	3,17	-218,336	-209,682
Gross profit/loss		**-35,880**	**9,969**
Administrative expenses		-3,266	-4,457
Operating profit/loss		**-39,146**	**5,512**
Financial income	4	116	1,779
Financial expenses	5	-10,882	-8,286
Profit/loss before tax		**-49,912**	**-995**
Tax on profit/loss for the year	6	-92,778	-192,442
Net profit/loss for the year		**-142,690**	**-193,437**

Balance Sheet 31 December

Assets

	Note	2016	2015
		USD '000	USD '000
Plant and machinery		1,004,189	1,043,644
Plant and machinery under construction		22,357	169,534
Property, plant and equipment	8	**1,026,546**	**1,213,178**
Fixed assets		**1,026,546**	**1,213,178**
Inventories	9	**4,560**	**8,609**
Trade receivables		28,202	3,876
Receivables from group enterprises		41,255	146
Other receivables		6,084	16,357
Deferred tax asset	12	0	126,536
Prepayments	10	1,597	2,536
Receivables		**77,138**	**149,451**
Cash at bank and in hand		**5,155**	**37,002**
Currents assets		**86,853**	**195,062**
Assets		**1,113,399**	**1,408,240**

Balance Sheet 31 December

Liabilities and equity

	Note	2016	2015
		USD '000	USD '000
Share capital		2,109	2,196
Retained earnings		650,230	792,833
Equity	11	**652,339**	**795,029**
Provision for deferred tax	12	68,839	102,538
Other provisions		71,862	158,802
Provisions		**140,701**	**261,340**
Payables to group enterprises		252,032	252,022
Long-term debt	14	**252,032**	**252,022**
Credit institutions		0	11,725
Trade payables		5,347	10,690
Payables to group enterprises	14	51,713	33,608
Corporation tax		0	6,637
Other payables		11,267	37,189
Short-term debt		**68,327**	**99,849**
Debt		**320,359**	**351,871**
Liabilities and equity		**1,113,399**	**1,408,240**

Uncertainty relating to recognition and measurement	1
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Statement of Changes in Equity

	Share capital	Retained earnings	Total
	USD '000	USD '000	USD '000
2016			
Equity at 1 January	2,196	792,833	795,029
Exchange adjustments	-87	87	0
Net profit/loss for the year	0	-142,690	-142,690
Equity at 31 December	**2,109**	**650,230**	**652,339**
2015			
Equity 1. januar	2,451	986,015	988,466
Exchange adjustments	-255	255	0
Net profit/loss for the year	0	-193,437	-193,437
Equity at 31 December	**2,196**	**792,833**	**795,029**

Notes to the Financial Statements

1 Uncertainty relating to recognition and measurement

In light of the current low price environment, Hess Denmark ApS has performed various sensitivity analysis for the asset impairment test. Net assets related to the oil and gas activities are tested for impairment if there is any indication of impairment. For assets with a limited lifetime such as oil and gas fields, cash flows are calculated based on forecasts for the entire lifetime of the asset. The determination of the recoverable amount for assets is based on a number of assumptions where estimates are made that are material to the determination. Such assumptions include future market conditions, market prices of oil and gas, estimated oil and gas reserves, weighted average cost of capital (WACC), exchange rates etc. The market prices applied are based on available forward prices and management's best estimate of long-term prices for the remainder of the period. In 2016, lower oil and gas prices resulted in USD 178 million of de-recognition to deferred tax assets for hydrocarbon taxes and to asset impairment and due to significant uncertainty regarding utilization of the deferred tax assets. At December 31, 2016 the total tax asset not recognised in Annual Report amount to USD 366 million.

The impairment losses are primarily attributable to the continued low oil and gas prices, resulting in lower long-term price assumptions.

The recoverable amounts of the impaired oil and gas assets are measured on the basis of market-based forward prices for oil and gas up until 2019. The prices applied in the period hereafter are based on management's best estimate. The recoverable amounts, determined on the basis of value in use, are based on the cash flow forecasts until end of the license. Management finds the assumptions applied for reasonable and realistic.

	2016	2015
	USD '000	USD '000

2 Revenue

Geographical segments

	2016	2015
Oil sales	164,900	200,660
Gas sales	17,556	18,991
	182,456	**219,651**

3 Cost of sales

	2016	2015
Direct production costs	82,556	73,463
Depreciation	129,439	127,013
Depreciation asset retirement	6,341	9,206
	218,336	**209,682**

Notes to the Financial Statements

		2016	2015
		USD '000	USD '000

4 Financial income

	2016 USD '000	2015 USD '000
Other financial income	116	1,779
	116	**1,779**

5 Financial expenses

	2016 USD '000	2015 USD '000
Interest paid to group enterprises	8,109	7,555
Other financial expenses	2,773	731
	10,882	**8,286**

6 Tax on profit/loss for the year

	2016 USD '000	2015 USD '000
Current tax for the year	-59	8,204
Deferred tax for the year	92,837	184,238
	92,778	**192,442**
Which breaks down as follows:		
Tax on profit/loss for the year	-33,758	8,272
Adjustment of deferred hydrocarbon tax	-51,140	-3,833
De-recognition of hydrocarbon tax asset	177,676	188,003
	92,778	**192,442**

7 Distribution of profit

	2016 USD '000	2015 USD '000
Retained earnings	-142,690	-193,437
	-142,690	**-193,437**

Notes to the Financial Statements

8 Property, plant and equipment

	Plant and machinery	Plant and machinery under construction
	USD '000	USD '000
Cost at 1 January	2,170,531	169,534
Additions for the year	14,936	22,357
Disposals for the year	-88,145	0
Transfers for the year	169,534	-169,534
Cost at 31 December	2,266,856	22,357
Impairment losses and depreciation at 1 January	1,126,887	0
Depreciation for the year	135,780	0
Impairment losses and depreciation at 31 December	1,262,667	0
Carrying amount at 31 December	**1,004,189**	**22,357**
Interest expenses recognised as part of cost	13,395	0

9 Inventories

	2016	2015
	USD '000	USD '000
Raw materials and consumables	4,560	8,609
	4,560	**8,609**

10 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance, subscriptions etc.

11 Equity

The share capital consists of 15,001 shares of a nominal value of DKK 1,000. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

12 Deferred tax asset

	2016 USD '000	2015 USD '000
Deferred tax asset at 1 January	23,998	208,236
Amounts recognised in the income statement for the year	84,839	3,765
Write-down to assessed value	-177,676	-188,003
Deferred tax at 31 December	**-68,839**	**23,998**
Property, plant and equipment (chapter 2 taxes)	79,773	104,676
Other (chapter 2 taxes)	-2,441	-2,138
Tax loss carry-forward (chapter 2 taxes)	-8,493	0
Property, plant and equipment (chapter 3A taxes)	156,048	204,139
Provisions (chapter 3A taxes)	-37,368	-82,577
Deferred chapter 2 taxes (chapter 3A taxes)	-35,796	-53,318
Other (chapter 3A taxes)	-5,080	-4,448
Tax loss carry-forward (chapter 3A taxes)	-443,483	-378,335
Transferred to deferred tax asset	365,679	314,539
Provision for deferred tax	**68,839**	**102,538**

Deferred tax asset

	2016	2015
Calculated tax asset	365,679	314,539
Write-down to assessed value	-365,679	-188,003
Carrying amount	**0**	**126,536**

Deferred tax assets related hydrocarbon taxes not capitalised amounts to USD 366 million as of 31 December 2016.

13 Other provisions

	2016	2015
	USD '000	USD '000
Asset retirement obligation		
Asset retirement obligation January 1	120,312	109,150
Revision to cost	-89,470	11,162
Asset retirement obligation December 31	30,842	120,312
Accumulated Accretion January 1	38,490	38,261
Accretion for the year	6,492	7,914
Revaluation for the year	-3,962	-7,685
Accumulated Accretion December 31	41,020	38,490
	71,862	**158,802**

Asset retirement obligation is expected to be paid at the end of the license year.

14 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2016	2015
	USD '000	USD '000
Payables to group enterprises		
Between 1 and 5 years	252,032	252,022
Long-term part	252,032	252,022
Other short-term debt to group enterprises	51,713	33,608
	303,745	**285,630**

Notes to the Financial Statements

15 Contingent assets, liabilities and other financial obligations

Other contingent liabilities

No financial exploration obligations rest upon the Company under the licenses granted by the Danish Ministry of the Environment and Energy for exploration and extraction of hydrocarbons.

The Company has entered into lease contracts with a period of irrevocability of up to 12 month. The rent in the period of irrevocability amount to kUSD 449 at 31 December 2016.

The Company is from time to time involved in legal proceedings. Management believes that these legal proceedings will not affect the financial position of the Company.

Notes to the Financial Statements

16 Related parties

	Basis
Controlling interest	
Hess Corporation, 1185 Avenues of the Americas, New York, USA	Ultimate Parent Company

Transactions

Related party transactions for 2016:

Expense for services: kUSD 3,880
Interest income: kUSD 110
Interest expense: kUSD 8,109
Loans payable: kUSD 303,745
Loans receivable: kUSD 41,255

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company of the largest and smallest group:

Name	Place of registered office
Hess Corporation	

The Group Annual Report of Hess Corporation may be obtained at the following address:

Hess Corporation
1185 Avenue of the Americas
New York, USA

Notes to the Financial Statements

17 Staff

	2016	2015
	USD '000	USD '000
Wages and Salaries	28,580	26,097
Pensions	1,309	1,162
Other social security expenses	117	124
	30,006	**27,383**
Wages and Salaries, pensions and other social security expenses are recognised in the following items:		
Cost of sales	30,006	27,383
	30,006	**27,383**
Average number of employees	**117**	**120**

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

18 Fee to auditors appointed at the general meeting

	2016	2015
Audit fee to Ernst & Young	52	45
Non-audit services	0	0
	52	**45**

Notes, Accounting Policies

Basis of Preparation

The Annual Report of Hess Denmark ApS for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

Effective 1 January 2016, the Company has implemented act no. 738 of 1 June 2015 with amendments to the Danish Financial Statements Act. As the implementation of the amendment act has no impact in terms of value on the income statement or the balance sheet in the financial year, nor on the comparative figures, the financial statements have been prepared based on the same accounting policies as last year.

The amendment act has solely implied new or changed presentation and disclosure requirements, which have been incorporated in the financial statements.

Financial Statements for 2016 are presented in USD '000.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Hess Corporation, the Company has not prepared a cash flow statement.

Recognition and measurement

The Financial Statements have been prepared under the historical cost method.

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Notes, Accounting Policies

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

The used USD/DKK exchange rate at 31 December 2016 is 711.16 (2015: 683.00). US Dollar is used as the measurement currency. All other currencies are regarded as foreign currencies.

Translation policies

The used USD/DKK exchange rate at 31 December 2016 is 711.16 (2015: 683.00). US Dollar is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Segment information on revenue

Information on business segments based on the Companys risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Income Statement

Revenue

Revenue from the sale of oil and gas is recognised in the income statement when the sale is considered effected based on the following criteria:

- delivery has been made before year end;
- a binding sales agreement has been made;
- the sales price has been determined; and
- payment has been received or may with reasonable certainty be expected to be received.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc.

Notes, Accounting Policies

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Exploration and development costs

Exploration and development costs are accounted for under the successful efforts method.

Costs of undeveloped oil and gas licenses, including lease bonuses are capitalised.

Exploration expenses, including geological and geophysical expenses and exploratory dry hol costs, are expensed as incurred.

Expenses for development of wells and costs of drilling and equipping productive wells, including development dry holes, and related production facilities are capitalised.

The costs of exploratory wells that find oil and gas reserves are capitalised pending determination of whether proved reserves have been found. In an area requiring major capital expenditure before production can begind, an exploration well is carried as an asset if sufficient reserves are discovered to justify its completion as a production well, and additional exploration drilling is underway or firmly planned. The Company does not capitalise the cost of other exploratory wells for more than one year unless proved reserves are found.

The Company calculates depletion expenses for acquisition costs of proved properties using the units of production method over proved oil and gas reserves. Depreciation and depletion expenses for oil and gas production equipment and wells are calculated using the units of production method over proved developed oil and gas reserves.

Financial income and expenses

Financial income and expenses comprise interest as well as realised and unrealised exchange adjustments.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The tax recognised in the income statement is classified as tax on ordinary activities.

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Notes, Accounting Policies

The Company is engaged in oil and gas extraction (hydrocarbons) and are subject to the hydrocarbon tax legislation in Denmark. Hydrocarbon taxes are calculated on the basis of taxable hydrocarbon income and include taxes calculated applying Denmark's ordinary income tax rate as well as tax calculated applying increased tax rates. Hydrocarbon taxes are recognised under tax on profit (loss) for the year.

Balance Sheet

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the capitalized exploration and development costs including dismantlement costs as described above in the section "Exploration and development costs".

Depreciation based on cost using the successful efforts method. Accordingly, depreciations are recognised over the lincense period.

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by depreciations.

Impairment of fixed assets

The carrying amounts of plant and machinery are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Inventories

Crude oil inventories are valued at the lower of average cost or market value.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company’s experience from previous years.

Notes, Accounting Policies

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Provisions

Asset retirement obligations

The Corporation recognises a liability for the fair value of legally required asset retirement obligations associated with long-lived assets in the period in which the retirement obligations are incurred. The Corporation capitalises the associated asset retirement costs as part of the carrying amount of the long-lived assets.

Deferred tax assets and liabilities

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised in respect of temporary differences concerning goodwill not deductible for tax purposes and other items - apart from business acquisitions - where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

Deferred tax assets and liabilities are offset within the same legal tax entity.

Current tax receivables and liabilities

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

Notes, Accounting Policies

Financial debts

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Financial Highlights

Explanation of financial ratios

Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$