QTR1

2019

Unaudited interim condensed financial information for

Sand Hill Petroleum B.V.

Amsterdam, 31 May 2019

Sand Hill Petroleum B.V.
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The Netherlands
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None of the Company or any of its parent or subsidiary undertakings or any such person’s officers or employees accepts any liability whatsoever arising directly or indirectly from the use of this Report.

Management Commentary

HSE
There were no reportable high-potential incidents during Q1 2019.

Production
During Q1 2019 the total daily production averaged 30.0 MMscfe/d, consisting of 25.1 MMscf/d net gas, 715 bpd condensate and 104 bpd oil. The production decrease compared to Q4 2018 is due to the natural production decline of the wells located in the North-East (Hungary).

Sales
Hydrocarbons sales revenue was EUR 17.4 mn in Q1 2019 with gas sales accounting for more than 80% of total sales. Note that a portion of the processing fee incurred is reducing sales revenue as a result of the application of a new IFRS standard (for further clarification refer to Notes 2).

EBITDA
Group achieved EUR 38.8 mn EBITDA between Q1 2018 and Q1 2019. In Q1 2019 EBITDA was EUR 6.9 mn.

Investments
Capital expenditure was EUR 13.9 mn in Q1 2019. The Group invested EUR 3.4 mn in geoscience and seismic activities, EUR 5.6 mn in exploration, appraisal, and development drilling, EUR 1.9 mn in well completions and gathering systems and EUR 3.0 mn in facilities.

Hungarian seismic survey and processing activity was finished on the Körös block, interpretation was ongoing in Q1 2019. The committed exploration well drilling program has finished on the Ócsa block (Paleogene area), the reservoir was determined to be not commercial. On the Koros block two development wells were drilled successfully which are planned to be hooked-up in Q3 2019.

The Konyar Gas Plant started operation in January; further upgrades, compression and additional storage installations were in progress in Q1 2019, with all remaining works to be completed in Q3 2019. Upgrade of the Endrod Gas Plant cooling capacity continued and is expected to be completed in 2Q 2019. The preparation works, engineering, permitting, procurement, for the Szandaszőlős Gas Project were in progress in Q1 2019. The project shall continue with the construction of a gathering station, pipelines, a blending circuit and a dehydration unit plus the hook-up of three development wells, two of which were drilled in Q1 2019.

OGDC has been awarded 3 new Hydrocarbon Concessions in Hungary during Q4 2018, the concession contracts were signed with the Hungarian authorities during Q1 2019.

Romania

Seismic field acquisition for the eastern half of the Romanian EX-1 3D ~410 sq km has been completed and data analysis has started. The permitting process continued for the western half on the remaining 340 sq km. The permitting process for the EX-5 3D seismic survey was ongoing in Q1 2019.

SUMMARY OF 2019 QTR 1 RESULTS

	31-Mar-19
Production (MMcfe/d)	30
(EUR '000)	
Operating profit/(loss)	2,172
Current Assets	41,884
Current Liabilities	12,983
Net Interest Bearing debt	48,241
EBITDA (calculated for the last 12 months)	38,816
Current ratio	3.23
Leverage ratio	1.24
Liquidity	21,188

Notes:

EBITDA (consolidated operating profit before Interest, Taxes, Depreciation, Amortization, impairment and non-cash expenses, and excluding any items of a one-off, non-recurring, extraordinary and exceptional nature) is calculated for the period of 12 months ending on March 31, 2019.

Net Interest Bearing Debt means the sum of all interest bearing financial indebtedness on a consolidated basis (excluding any Shareholder Loan and any liability under any preference shares in the Issuer (equity instrument), the HMA Guarantee Facility and any Permitted Hedging), less the amount standing to the credit of Pledged Accounts.

Current Assets means the aggregate book value of the consolidated assets of the Group which are treated as current assets less the aggregate book value of any restricted cash (where restricted cash means cash which is held in accounts that are both pledged and blocked)

Current Liabilities means the aggregate book value of the consolidated liabilities of the Group which are treated as current liabilities excluding the current portion of long term debt, and liabilities to non-controlling interests.

Current ratio means the ratio of Current Assets to Current Liabilities.

Liquidity reflects cash that can be used without restriction.

Relevant Period means each period of twelve (12) months ending on a Quarter Date (each 31 March, 30 June, 30 September and 31 December).

Leverage Ratio means, in respect of any Relevant Period, the ratio of Net Interest Bearing Debt on the last day of that Relevant Period to EBITDA in respect of that Relevant Period.

Pledged Accounts means all accounts held by SHP BV and its subsidiaries, including but not limited to: the Escrow Account (in connection with the settlement of the Bonds); the Debt Service Retention Account; and any account that is held by SHP BV with banks in the Netherlands, but excluding the following accounts:

(i) the cash collateral account held by OGDC related to the HMA Guarantee Facility in an amount up to EUR 1,500,000;

(ii) any Hedging Collateral Account;

(iii) any cash collateral account securing counter-indemnity obligations in respect of a guarantee, bond, standby or documentary letter of credit issued by a bank or financial institution in respect of any underlying liability of a Group Company in the ordinary course of business of the Group up to a maximum of EUR 1,000,000;

(iv) any Abandonment Collateral; and

(v) any cash collateral security granted pursuant to paragraph (l) of the definition of "Permitted Encumbrances".

Please refer to the definition of the above terms in the Bond Terms for SHP BV (ISIN NO 0010820616).

UNAUDITED

INTERIM

CONDENSED

CONSOLIDATED

QTR 1 2019

FINANCIAL

INFORMATION

WITH NOTES

Consolidated unaudited statement of profit or loss and other comprehensive income
(in EUR 000's)

	notes	***2019.01.01-2019.03.31*** unaudited	***2018.01.01-2018.03.31*** unaudited
Revenue	2	17 374	17 310
Other income		1	11
Production costs	3	-7 460	-5 503
Exploration expenses	4	-36	-9
Employee benefit expenses	5	-1 311	-1 045
Depreciation	6	-4 770	-3 235
Other operating expenses	7	-1 626	-1 184
Operating profit		**2 172**	**6 345**
Finance income	8	30	2 643
Finance expense	8	-1 678	-6 266
Profit before income tax		**524**	**2 722**
Income tax expense	9	-345	-887
Profit for the period		**179**	**1 835**
Other comprehensive income		-39	1 134
Total comprehensive income		**140**	**2 969**

Consolidated unaudited Statement of Financial Position
(In EUR 000's)

Non Current Assets	*notes*	*2019.03.31 unaudited*	*2018.12.31 audited*
Exploration rights	10	8 155	8 312
Exploration and Evaluation Assets	11	40 732	43 211
Assets in Development	12	18 088	21 498
Producing Assets	13	96 017	81 492
Other property, plant and equipment	14	3 143	1 406
Goodwill	15	7 529	7 529
Other intangible assets		287	370
Deferred tax assets		2 491	2 466
Other financial assets	16	8 407	10 628
Total non-current assets		**184 849**	**176 912**
Current assets			
Inventories		8 188	6 534
Trade and other receivables		11 850	16 534
Income tax receivable		658	396
Cash and short-term deposits	17	21 188	30 442
Total current assets		**41 884**	**53 906**
Total assets	-	**226 733**	**230 818**

Equity and liabilities	*notes*	*2019.03.31 unaudited*	*2018.12.31 audited*
Share capital	18	227	222
Share premium	19	186 202	182 633
Retained earnings		-61 877	-58 607
Translation difference		10 648	10 687
Total equity		**135 200**	**134 935**
Non-current liabilities			
Interest-bearing loans and borrowings	20	73 329	69 876
Deferred tax liabilities		211	211
Provisions	21	5 010	5 057
Total non-current liabilities		**78 550**	**75 144**
Current liabilities			
Trade and other payables	22	9 900	17 252
Income tax payable		193	44
Taxes and mining royalties payable		2 716	3 348
Provisions	21	174	95
Total current liabilities		**12 983**	**20 739**
Total liabilities		**91 533**	**95 883**
Total equity and liabilities	-	**226 733**	**230 818**

Consolidated Statement of Cash Flows
(In EUR 000's)

	notes	2019.01.01-2019.03.31 unaudited	2018.01.01-2018.03.31 unaudited
Profit before income tax from operations		524	2 722
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation, depletion and amortisation		4 770	3 235
Unwinding of discount on decommissioning		36	20
Interest expenses and incomes		1 484	5 765
FX effects		0	-2 058
Working capital adjustments:			
Change in trade and other receivables		4 667	-2 492
Change in inventories		-1 654	-428
Change in trade and other payables relating to operating activities		-6 973	-1 824
Income tax paid		-483	-139
Net cash flows from operating activities	-	**2 371**	**4 801**
Cash flows from investing activities			
Expenditures on E&E and oil&gas assets		-13 811	-9 162
Expenditure on other PPE		-108	-42
Expenditure on other intangible assets		-5	-8
Proceed on disposal of assets		0	
Restricted cash decrease (increase)		2 683	2 718
Loans granted	23	-477	-162
Net cash used in investing activities		**-11 718**	**-6 656**
Cash flows from financing activities			
Proceeds from issuance of shares		74	1
Proceed from issuance of preference shares			8
Interest paid			
Net cash (used in) from financing activities		**74**	**9**
Increase/(Decrease) in cash		-9 273	-1 846
Translation difference		19	-26
Cash and cash equivalents, beginning of period		30 442	9 309
Cash and cash equivalents, end of period		21 188	7 437

NOTES TO FINANCIAL INFORMATION

Basis of reporting

In line with the terms of the Senior Secured Callable Bonds 2018-2022 ISIN NO 0010820616 this unaudited interim condensed consolidated financial information for the first three months ended on 31 March, 2019 is reported in accordance with IAS 34.
The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements.
The unaudited interim condensed financial information has been prepared on the going concern basis.
The preparation of the Group's consolidated financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial information. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.
This unaudited interim condensed consolidated financial information has not been subject to review or audit by independent auditors

Note 1 Significant accounting policies

The unaudited interim condensed consolidated financial information is presented in EUR which is the Company's functional currency
The change of the functional currency took place in 2018 from USD to EUR due to changes in the business environment of the Company.
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Exploration

The exploration costs in the Financial Information prepared in accordance with IFRS are accounted for using the Successful Efforts method of US GAAP (FAS-19), as it is allowed by IFRS 6 – Exploration for and Evaluation of Mineral Resources - to follow consistently any previously applied accounting policy not contradictory to IFRS.

The Group does not apply IFRS 6 to expenditures incurred:

- before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
- after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

Licence and property acquisition costs

Exploration licence and acquisition costs are capitalised in intangible assets.
Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit, i.e. the term of the concession contract.

Exploration and evaluation costs

Costs of E&E are initially capitalised as E&E assets.

Tangible assets used in E&E activities (such as the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Company's Exploration Function) are classified as property, plant and equipment.

E&E costs are not amortised prior to the conclusion of appraisal activities.

Capitalization of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset), form part of the cost of that asset.

Other borrowing costs are recognized as an expense using the effective interest method. The Group capitalizes borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets.

Capitalization ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are completed.

The Group does not capitalize borrowing costs related to E&E assets as it is unlikely that future economic benefits from that project can be considered probable.

Note 2 Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

All revenue is recognized at a point in time when control transfers. The only performance obligation is the sale of commodity. The Group applied the practical expedient not to disclose the remaining performance obligations when these are originally expected to have a duration of one year or less.

In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components and consideration payable to the customer.

Consideration payable to customer:

Gas processing is performed by a customer of the Group for both the gas sold to that customer and sold to third parties.

In the first case processor takes control of the condensate and gas at the gathering station. In this case the processing fees are reflected as a reduction of the transaction price (rather than an expense) since the processor is not providing distinct services to the Group in exchange for those fees.

In the second case processor does not take control of the gas at the gathering station. In this case the processor is a service provider. The Group record product revenue for the sale of the processed commodities to the third-party customers. Fees paid to the processor would be classified as expense.

Note 3 Production costs

Production costs are all expenses incurred in relation to the production of hydrocarbons including materials and services used, salaries and wages of production employees, damage compensations related to wells in production, work-overs and mining royalties.

Note 4 Exploration expenses

Geological and geophysical exploration costs related to areas where the company does not hold the concession rights are charged against income as incurred.
Exploration expenses include further the impairment of E&E assets in case hydrocarbons are not found and the exploration expenditure is written off as a dry hole, when the right to explore in a specific area has expired and is not expected to be renewed or when the company does not plan further expenditures or explorations in the specific area.

Note 5 Employee benefit expenses

Employee benefit expenses are salaries and payroll related contributions (social security and taxes on wages and other related expenses)

Note 6 Depreciation

Amortisation and depreciation of wells and pipelines is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proved reserves on an entitlement basis at the end of the period plus production in the period, on a well-by-well basis.
Proved reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain.
Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants.
However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.
Depreciation of other oil and gas properties e.g. gas plants have a straight-line depreciation.
Office equipment has a straight-line depreciation based on useful life.

Note 7 Other operating expenses

Other operating expenses comprise materials and supplies that cannot be held in inventory (energy, small items of equipment, office and cleaning materials), administrative and professional expenses (legal, audit, accounting and payroll), rental fees (office and warehouse, cars), IT, travel and conference expenses, bank and postal charges and other items of expenditures.

Note 8 Finance income and expense

Finance income comprises the following: interest income on investments (including available-for-sale financial assets), gains from the sale of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise the following: interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets.

The amounts under this item in the comparative period were mainly non-realised foreign exchange gains because of exchange rate movements between EUR/RON and USD/EUR related to the then (2018) outstanding USD denominated shareholder loans from Sand Hill Petroleum BV to the Hungarian and

Romanian subsidiaries. EUR and RON are the functional currencies for the Hungarian and Romanian companies respectively.

Preference shares
The cumulative preference shares bore an interest expense until 18 December, 2018 as a result of reclassification from equity to liabilities. This interest expense is presented under financial expenses.

In line with the original intentions of the shareholders, under Dutch GAAP, the Company has continuously treated and reported the cumulative preference shares as an equity instrument. By adopting IFRS the Company has reviewed the Shareholding Agreement and the Articles of Association and came to a conclusion that under IFRS the cumulative preference shares should be treated as financial liabilities. The Company's corporate documentation has been amended in December 2018 to be in line with the original intentions of the shareholders and the cumulative preference shares were reclassified to equity and the de-recognition gain was booked to retained earnings

Note 9 Tax

Corporate Income tax, local business tax and innovation contribution booked in Hungary for the period.

Note 10 Exploration rights

Concession fees, acquisition costs of the EX-1 and EX-5 Concession stakes in Romania.

Note 11 Exploration and Evaluation assets

Exploration costs are accounted for using the Successful Efforts method of US GAAP (FAS-19), as it is allowed by IFRS 6 – Exploration for and Evaluation of Mineral Resources. The balance consists of capital expenditures the outcome of which are yet uncertain.

Note 12 Assets in Development

Expenditure is transferred from 'Exploration and evaluation assets' to 'Assets in development' once the work completed to date supports the future development of the asset and such development receives appropriate approvals. After transfer of the exploration and evaluation assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within 'Assets in development'. E&E assets will no longer be classified as such when 'technical feasibility and commercial viability of extracting a mineral resource are demonstrable'.

When a development project moves into the production stage, all assets included in 'Assets in development' are then transferred to 'Producing assets'.
Assets in development contain the uncompleted infrastructure costs as well.

Note 13 Producing assets

Wells and infrastructure completed, plus other equipment not reported under inventory.

Note 14 Other PPE

Mainly office equipment.

Note 15 Goodwill

Acquisition costs of OGD Central Kft that holds the Koros license in Hungary.

Note 16 Other financial assets

Cash set aside as collateral for obligations (e.g. as security for guarantees issued by Banks on behalf of OGDC Kft) held on separate accounts and not available for at least 12 months after the reporting period plus cash deposited on any blocked account (Escrow accounts including the DSRA account to service interest payments). Also includes amounts disbursed by Sand Hill Petroleum Romania srl. (SHPR) to Panfora Oil and Gas srl. under the Carry Financing Agreement signed with Panfora in 2016.

	31-Mar-19
	(EUR 000s)
Other financial assets (escrowed account)	750
Debt Service Reserve Account (escrowed account)	3 150
Collaterals in Hungary (escrowed accounts)- concession rounds, Körös licence, mining plots	2 078
Carry Financing / Panfora Oil & Gas srl.	2 429
Total	8 407

Note 17 Cash and short term deposits

Available non-restricted cash excluding cash items shown under Other Financial Assets.

Note 18 Share capital

Ordinary and cumulative preference shares issued. Cumulative preference shares (except the equity component) were treated as financial liabilities before 18 December, 2018.

Note 19 Share premium

Premium paid over the nominal value of the ordinary and cumulative preference shares issued. Cumulative preference shares (except the equity component) were treated as financial liabilities before 18 December, 2018.

Note 20 Interest bearing loans and borrowings

The Company issued on April 13, 2018 a EUR 70 million senior secured callable bond maturing in 2022. The Company pays interest during the term of the Bond. The Bond is repayable in full at maturity.

The Company recognizes a right-of-use asset in line with IFRS 16 for leases previously classified as an operating lease applying IAS 17. The lease liability is measured at the present value of the remaining lease payments, discounted using the incremental (or implicit where applies) borrowing rates at the date of initial application.

Note 21 Provisions

The Group recognizes a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field.

Liabilities due within 12 months are shown as current liability whereas liabilities beyond 12 months are shown under non-current liabilities.

Note 22 Trade and other payables

The Company's 100% Hungarian subsidiary, O&GD Central Kft. ("OGDC"), has entered into an offtake prepayment agreement ("Prepayment Agreement") in November, 2017 with Hungarian Gas Trade Ltd. ("HGT"), whereby the Buyer paid in advance for future volumes. OGDC is committed to deliver a fixed volume of gas from its existing processing plant to HGT between November 2017 and 30 June 2019.

The short term (liabilities within one year) portion of the payable are booked under current liabilities whereas the long term (liabilities exceeding one year) portion is booked as non-current liabilities.

As of the end of period the total outstanding amount under the prepayment agreement was net EUR 1.4 mn.

Normal trade creditors are also shown under this item.

Note 23 Loans granted

The Company's Romanian subsidiary (SHPR) entered into a Joint Operating Agreement with its partner Panfora Oil & Gas srl. ("Panfora") in January 2017 and acts as an Operator in the Romanian EX-1 and EX-5 concessions. SHPR also entered into a Carry Financing Agreement with Panfora in 2017, whereas SHPR finances Panfora's share of expenditures within the Minimum Work Program obligations up to a total of EUR 6.35 mn, preferentially repayable from any production from the licences.

Contingent liabilities

The Prepayment Agreement is secured by a parent company guarantee from the Company in favour of HGT, such security to terminate upon expiry of the agreement on 30 June 2019. In case OGDC could not supply gas, OGDC will either have to repay the outstanding value of the prepaid amounts not yet compensated by gas deliveries (max EUR 8 mn) or HGT may enforce upon the Company's guarantee.

As of the end of QTR 1 2019 the outstanding amount guaranteed by the Company was gross EUR 1.77 mn.

In early 2017, the Company's 100% Romanian subsidiary, Sand Hill Petroleum Romania srl. ("SHPR"), acquired majority participating interests (70% and 80% respectively) in two existing onshore hydrocarbons exploration concessions (EX-1 and EX-5) in Romania thus entering into a non-incorporated JV with a Romanian company, Panfora, a wholly owned subsidiary of MOL Oil & Gas Plc. („MOL"). As a result of the acquisition, SHPR is committed to carry out a compulsory work program together with Panfora. SHPR and Panfora are jointly and severally liable towards the Romanian government for the work program obligations. SHPR has provided a parent company guarantee from the Company in favour of Panfora for its share of such obligations and have received a reciprocal parent company guarantee from MOL.
As of the end of QTR 1 2019 the Company's total exposure under the outstanding Romania related guarantees was estimated at EUR 35.2 mn.