QTR1

2022

Unaudited interim condensed consolidated financial information for

Sand Hill Petroleum B.V.

Amsterdam, 31 May 2022

Sand Hill Petroleum B.V.
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Chamber of Commerce: 56038038

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Management Commentary

Pricing

Gas prices increased moderately, while oil prices increased significantly in Q1 2022 compared to Q4 2021 and were well above Q1 2021 price levels:

- Dutch TTF day ahead averaged $35/mcf for the quarter, up from $34.6/mcf in Q4 2021 and up from $7.2/mcf in Q1 2021
- Austrian VTP day ahead averaged $33.6/mcf for the quarter, up from $32.9/mcf in Q4 2021 and up from $6.7/mcf in Q1 2021
- Brent prices averaged $ 101.4/bbl for the quarter, up from $79.7/bbl in Q4 2021 and up from $ 60.9/bbl in Q1 2021.

Operational

Production

During Q1 2022 total daily production averaged 13.3 MMscfe/d consisting of 11.8 MMscf/d gas, 218 bpd condensate and 33 bpd oil. Production decreased by 10% compared to the previous quarter and by 17% compared to Q1 2021 because some of the wells have reached their declining phase and workover activities on both oil wells caused a temporary drop in production. However, the production decline was mitigated by workovers and the installation of a new compressor in Q1. Further compressor installations are planned for Q2 and Q3 2022.

Sales

Sales revenue was EUR 24.7 mn in Q1 2022, 8% lower compared to the previous quarter. Gas sales accounted for 93% of total sales. Sales revenue decreased somewhat less than production due to higher prices.

Sales revenue in Q1 2022 was higher than in Q1 2021 despite lower production due to higher prices and more favourable fixed price contracts.

Costs and expenses

Production costs in Q1 2022, excluding mining royalties and write-offs, were 21% lower than in Q4 2021 due to less spending on workovers, maintenance, reserve audit, balancing gas and cost of goods sold. There were no write-off costs booked under production costs in Q1 2022.

Mining royalties decreased by 7% compared to Q4 2021 in line with lower revenues.

Compared to Q1 2021, production costs, excluding mining royalties and write-off costs, increased by 16% mainly due to more spending on production chemicals, maintenance and balancing gas.

Royalty payments were five times higher compared to Q1 2021 despite lower production due to the new royalty calculation formula, which is based on Dutch TTF gas price instead of Brent for gas production and which is applicable in Hungary from 28 March 2021.

Employee benefit expenses increased by 6% compared to the previous quarter despite fewer employees, due in part to the regular adjustment of salaries and in part to bonus payments to non-production related employees.

Employee benefit expenses were 14% higher compared to Q1 2021, although there were fewer employees, due in part to the regular adjustment of salaries and in part to bonus payments to non-production related employees.

Other operating expenses were 53% lower compared to Q4 2021, since Q4 expenses were exceptionally high mainly due to legal fees of EUR 1.5 mn paid in relation to the change of control process and a EUR 0.2 mn loss realized on an asset sale. Excluding the above items, other operating expenses increased by 6% compared to Q4 2021, mainly due to higher professional fees.

Other operating expenses in Q1 were 29% higher than Q1 2021 expenses mainly due to higher professional, legal, board related fees and unrecoverable VAT on bond related expenses.

There was a minimal write-off in Q1 related to the termination of the Békéscsaba and Körösladány concession agreements.

Investments

Capital expenditure was EUR 0.5 mn in Q1 2022. The Group invested EUR 0.12 mn on geoscience and seismic activities, EUR 0.1 mn on exploration, appraisal, and development drilling, EUR 0.34 mn on well completions, workovers and gathering systems and EUR 0.34 mn on facilities. A reclassification of an unused asset also took place from facilities to inventory in the amount of EUR 0,39 mn, which reduced capital expenditures.

Hungary

In Q1 2022 the Group did not drill any wells, however it continued to develop new prospects and to procure drilling permits. Drilling expenses booked in the quarter are mostly related to permitting of wells planned to be drilled in the near future.

There were workover projects undertaken during the quarter in order to mitigate the natural production decline of some of the wells. One compressor was also installed. Further compressor installations are planned in Q2 and Q3 2022.

The Company started the planning of the 2022 mandatory seismic programs (two 3D and 3 2D programs). It continued with the interpretation of seismic data in Hungary and well planning continued.

During QTR1 the Company's Hungarian subsidiaries signed several amendments to the existing concession agreements with the Hungarian authorities. For details please see the section on Contingent Liabilities in this report.

Romania

The permitting process for the second phase of the EX-1 block 3D seismic program and for the EX-5 3D seismic survey, suspended in Q1 2020 due to Covid-19 restrictions, was resumed in the EX-1 block and Sand Hill Petroleum Romania srl is preparing to also resume it in the EX-5 block. Planning has started for two 3D and two 2D programs in Romania. Acquisition of 3D seismic is scheduled for Q4 2022 while the acquisition of 2D seismic is scheduled for Q1 2023 on the EX-1 block. Acquisition of 3D and 2D seismic is planned for Q2 2023 on the EX-5 block.
The deadline to complete the mandatory work program corresponding to Phase I of the Exploration Period is 8 April 2025 for EX-1 block and 12 April 2025 for EX-5 block.

Corporate

On 26 January 2022 the Company entered into an agreement with the Shareholders and Bondholders regarding certain transitional arrangements (the "Governance Agreement"), waived the occurrence of any Change of Control Event caused by the entry into of the Governance Agreement, the appointment

of the Interim Board Members, or any of the elements contemplated by the Governance Agreement, approved of and granted to the Bond Trustee a power of attorney, such power of attorney to remain valid until the earlier of completion of the change of control process or the termination of the Governance Agreement.
The purpose of the Governance Agreement was to provide a higher degree of control over the Company and the Group to the Bondholders.

Further to the Governance Agreement Mr. Guido Nieuwenhuizen and Intertrust Netherlands B.V. resigned as members of the Management Board, Sir Richard Olver, Mr. Peder Bratt and Mr. Simon Eyers resigned as members of the Supervisory Board.
Mr. Hein Coops and Mr. Arnaud van der Lingen were appointed as new members of the Management Board and Mr. Henrik A. Christensen, Mr. Jan Chalupa and Mr. Kjell Erik Eilertsen were appointed as new members of the Supervisory Board.

The Company paid in early February 2022 the interest that was due on the Interest Payment Date on 13 October 2021 and postponed to 31 January 2022.

HSE
There was no reportable high-potential HSE incident during Q1 2022.

Operational overview

Q1 2022	Sales mmscfe/d	Number of producing wells*
Koros	9	21
Ujleta	1	3
Berettyo	2	7
Penészlek	1	1

*Note: includes 8 wells with technical reserve and intermittent production

		Jan-22	Feb-22	Mar-22
Sales	*MMcfe/d*	13	13	13
Wells drilled	*#*	-	-	-

SUMMARY OF 2022 QTR 1 RESULTS

	31-Mar-22
	(EUR '000)
Operating profit/(loss)	11 048
Current Assets	42 606
Current Liabilities	97 704
Net Interest-Bearing debt	62 987
EBITDA (calculated for the last 12 months)	33 218
Current ratio	0.44
Leverage ratio	1.9
Liquidity	23 359

On 20 December 2019 the Company entered into an amendment and restatement agreement to the bond terms for its "9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022" with ISIN NO001 0820616 (the "Bond Issue"). Pursuant to the amended and restated bond terms for the Bond Issue (the "Bond Terms") the financial covenants have been adjusted, and the financial covenants were temporarily suspended in full until (and including) 31 December 2020 in respect of the Minimum Liquidity covenant and for each Relevant Period expiring on or before 31 December 2020 in respect of both the Leverage Ratio and the Current Ratio.

On 30 April 2020 the Company entered into a second amendment and restatement agreement to the bond terms for its "9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022" with ISIN NO001 0820616 (the "Bond Issue"). Pursuant to the second amended and restated bond terms for the Bond Issue (the "Bond Terms") the Company secured a further extension of the waiver and suspension of the financial covenants and certain amendments to the Bond terms. Bondholders agreed to, inter alia, waive compliance with required financial covenants until end of September 2021, allow the Company access to funds accumulated on the Debt Service Reserve Account, terminate the obligation to maintain and fund the Debt Service Retention Account, in respect of the period from October 2019 to April 2021 receive the accruing interest as payment-in-kind interest ("PIK Interest") through the issuance of additional Bonds and apply an additional three percent back-end fee to the repayment.

In a notice dated 30 June 2021 (the "Update Notice") issued to the attention of the Bondholders, the Company stated that it was engaged in discussions with an ad hoc committee of Bondholders (the "Ad Hoc Committee") which at the date of the Update Notice represented approximately 77% of the outstanding Bonds regarding the ongoing sales process in respect of the potential sale of the Company's shares, subsidiaries or assets (the "Transaction"), potential amendments to the Bond Terms and/or a potential financial restructuring of the Company and the Group.

Pursuant to the Summons of 6 October 2021, the interest that was due on the Interest Payment Date on 13 October 2021 was postponed to 30 November 2021.

Pursuant to the Summons of 29 November 2021, the interest that was due on the Interest Payment Date on 13 October 2021 was postponed to 31 January 2022 and the Leverage Ratio, which would otherwise be tested on 31 December 2021, was deferred so that the Leverage Ratio will be tested now on 31 March 2022.

Pursuant to the Summons of 20 December 2021, the Bondholders approved interim board members to be appointed by the Shareholders, approved and consented to an agreement with the Shareholders regarding certain transitional arrangements (the "Governance Agreement"), waived the occurrence of any Change of Control Event caused by the entry into of the Governance Agreement, the appointment of the Interim Board Members, or any of the elements contemplated by the Governance Agreement, approved of and granted to the Bond Trustee a power of attorney, such power of attorney to remain valid until the earlier of completion of the Transaction or the termination of the Governance Agreement.

On 8 April 2022 the Bondholders approved the extension of the Maturity Date to 2 May 2022 provided the Company paid on 13 April 2022 EUR 14 mn as partial redemption, the interest due on 13 April 2022, settled outstanding invoices from Nordic Trustee and paid an advance of EUR 845k for future expenses. As of 13 April 2022 the amount of the outstanding bonds, after payment of the EUR 14 mn partial redemption, is equivalent to EUR 65,881,627.

On 27 April 2022 the Bondholders announced that they have been presented with an offer ("Offer") dated 18 January 2022 submitted by certain members of the Company's management on behalf of themselves and a certain financial investor (the "Buyer").

The Bondholders have been discussing the Offer Letter with the Buyer and a sale and purchase agreement ("SPA") for a sale of 100% of the shares in the Company and the full redemption of the Bonds as further described below (the "Transaction").

It is contemplated that in addition to the acquisition of 100% of the Shares in the Company by the Buyers, the Transaction shall involve a full redemption of the Bonds and outstanding accrued interest on or about the completion date of the Transaction against the Bond Trustee's receipt of:

(a) EUR 42,905,327 (the "Redemption Amount"); and

(b) payment of all outstanding costs, fees and any other amount (including all legal and financial advisor's fees) incurred by the Bond Trustee being outstanding at the date of completion of the Transaction.

Following the Bond Trustee's receipt of the Redemption Amount and the Trustee's Costs within 30 September 2022, the Bonds and all other amounts outstanding under and pursuant to the Finance Documents (as defined in the Bond terms) will be considered fully redeemed and the Bond Trustee shall thereafter release all Transaction Security.

The Bondholders also approved to extend the Maturity Date from 2 May 2022 to the earlier of (i) the fifth Business Day following the day the Bond Trustee has received the Redemption Amount and (ii) 30 September 2022 (the "New Maturity Date"), provided that the SPA is signed no later than 16 May 2022.

Given that the SPA was not signed on 16 May 2022 the Bondholders, on 17 May 2022, announced that they expected that a share purchase agreement documenting a sale of the shares in the Company could be signed by 31 May 2022, and that the commitments by a buyer under such share and purchase agreement will enable the Company to redeem the Bonds with an amount to be finally approved by Bondholders through a Written Resolution.

Bondholders extended the Maturity Date to 30 September 2022 conditional upon: a) the Company by no later than 25 May 2022 (i) partially redeems the Bonds with an amount of EUR 5 million, together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount and (ii) pays any accrued and unpaid costs; (b) a share purchase agreement regarding the sale of the shares in the Company has been signed no later than 31 May 2022; and, (c) the Bondholders no later than 6 June 2022, by way of a Written Resolution have approved the amount, together with cost accrued for the Bond Trustee applicable to finally redeem the bonds, unless the Bonds will be redeemed in full with all amounts and costs outstanding as of 17 May 2022.

On 24 May 2022 the Company partially redeemed the Bonds with an amount of EUR 5 million, together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount and paid any accrued and unpaid costs.

The Ad Hoc Committee and its advisers are continuing the process for the sale of all the shares in the Company, which if successful is expected to result in a solution for the Bond Issue by the end of Q2 2022.

Notes:

EBITDA means, for any Relevant Period (on a consolidated basis for the Group) operating profit before deducting any amount attributable to interest, taxes, depreciation, amortisation, impairment and non-cash expenses, and excluding any items of a one-off, non-recurring, extraordinary or exceptional nature for that Relevant Period, after:

(a) deducting the amount of any operating profit (or adding back the amount of any loss) of any member of the Group which is attributable to minority interests; and

(b) including the Group's share of the operating profits or losses (before deducting any amount attributable to interest, taxes, depreciation, amortisation, impairment and non-cash expenses, and excluding any items of a one-off, non-recurring, extraordinary or exceptional nature for that Relevant Period) of any entity (which is not a Group Company) in which any member of the Group has an ownership interest.

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 the Obligors, including but not limited to: (a) the Escrow Account (in connection with the settlement of the Bonds); (b) any account that is held by the Issuer 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 amended and restated Bond Terms for SHP BV (ISIN NO 0010820616).

UNAUDITED

INTERIM

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CONSOLIDATED

QTR 1 2022

FINANCIAL

INFORMATION

WITH NOTES

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

	notes	*2022.01.01-2022.03.31 unaudited*	*2021.01.01-2021.03.31 unaudited*	*2022Q1*	*2021Q1*
Revenue	2	24 740	6 946	24 740	6 946
Other income		16	18	16	18
Own work capitalised	5	84	97	84	97
Production costs	3	-8 584	-3 183	-8 584	-3 183
-out of which write-off of Producing assets		*0*	*0*	0	0
Exploration expenses	4	-35	-11	-35	-11
Impairment	6b	-111	-122	-111	-122
Employee benefit expenses	5	-933	-815	-933	-815
Depreciation	6a	-2 739	-3 057	-2 739	-3 057
Other operating expenses	7	-1 390	-1 085	-1 390	-1 085
Operating profit		**11 048**	**-1 212**	**11 048**	**-1 212**
Finance income	8	72	83	72	83
Finance expense	8	-2 253	-2 224	-2 253	-2 224
Profit before income tax		**8 867**	**-3 353**	**8 867**	**-3 353**
Income tax expense	9	-938	-161	-938	-161
Profit for the period		**7 929**	**-3 514**	**7 929**	**-3 514**
Other comprehensive income		-8	184	-8	184
Total comprehensive income		**7 921**	**-3 330**	**7 921**	**-3 330**

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

Non Current Assets	***notes***	***2022.03.31 unaudited***	***2021.12.31 unaudited***
Exploration rights	10	5 888	5 992
Exploration and Evaluation Assets	11	23 073	22 994
Assets in Development	12	6 378	7 077
Producing Assets	13	88 383	89 769
Other property, plant and equipment	14	1 392	1 499
Goodwill	15	7 529	7 529
Other intangible assets		1 296	1 321
Deferred tax assets		596	613
Other financial assets	16, 24	1 353	1 352
Total non-current assets		**135 888**	**138 146**
Current assets			
Inventories	17	4 831	4 278
Trade and other receivables		14 184	13 511
Income tax receivable		232	282
Derivative financial assets		0	0
Cash and short-term deposits	18	23 359	15 893
Total current assets		**42 606**	**33 964**
Total assets	-	**178 494**	**172 110**

Equity and liabilities	***notes***	***2022.03.31 unaudited***	***2021.12.31 unaudited***
Share capital	19	234	234
Share premium	20	194 163	194 163
Retained earnings		-133 576	-141 505
Cash-flow hedge reserve		0	0
Translation difference		11 029	11 037
Total equity		**71 850**	**63 929**
Non-current liabilities			
Interest-bearing loans and borrowings	21	29	50
Deferred tax liabilities		0	0
Provisions	22	8 911	8 881
Total non-current liabilities		**8 940**	**8 931**
Current liabilities			
Trade and other payables	23	2 192	3 034
Income tax payable		1 506	927
Taxes and mining royalties payable		7 009	6 842
Interest-bearing loans and borrowings	21	86 635	88 085
Provisions	22	362	362
Total current liabilities		**97 704**	**99 250**
Total liabilities		**106 644**	**108 181**
Total equity and liabilities	-	**178 494**	**172 110**

Consolidated Statement of Cash Flows

(In EUR '000)	notes	*2022.01.01-2022.03.31 unaudited*	*2021.01.01-2021.03.31 unaudited*	*2022Q1*	*2021Q1*
Profit before income tax from operations		**8 867**	**-3 353**	**8 867**	**-3 353**
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation, depletion and amortisation		2 739	3 057	2 739	3 057
Impairment of Exploration rights		0	0	0	0
Write off of oil and gas properties		0	0	0	0
Impairment of oil and gas properties		0	0	0	0
Write off of exploration and evaluation assets		7	0	7	0
Impairment of exploration and evaluation assets		33	0	33	0
Impairment of other assets		79	122	79	122
Reversal of previously impaired assets		0	0	0	0
Unwinding of discount on decommissioning		29	0	29	0
Utilisation of decommissioning provision		0	0	0	0
Interest expenses and incomes		2 145	2 009	2 145	2 009
FX effects		-4	2	-4	2
Other non-cash items		0	-3	0	-3
Working capital adjustments:					
Change in trade and other receivables		-673	-191	-673	-191
Change in inventories		-553	-21	-553	-21
Change in trade and other payables		-676	-142	-676	-142
Income tax paid		-292	-376	-292	-376
Net cash flows from operating activities		**11 701**	**1 104**	**11 701**	**1 104**
Cash flows from investing activities					
Expenditures on E&E and oil&gas assets		-510	-877	-510	-877
Expenditure on other PPE		-6	-2	-6	-2
Expenditure on exploration rights		0	0	0	0
Expenditure on other intangible assets		0	-1	0	-1
Restricted cash decrease (increase)		-2	-61	-2	-61
Loans granted	24	-12	-59	-12	-59
Net cash used in investing activities		**-530**	**-999**	**-530**	**-999**
Cash flows from financing activities					
Proceeds from issuance of shares		0	0	0	0
Proceeds from loans and borrowings		0	0	0	0
Payments of loan and borrowings		-101	-105	-101	-105
Interest paid		-3 605	-1	-3 605	-1
Net cash (used in) from financing activities		**-3 706**	**-106**	**-3 706**	**-106**
Increase/(Decrease) in cash		7 464	-1	7 464	-1
Translation difference		2	142	2	142
Cash and cash equivalents, beginning of period		15 893	5 804	15 893	5 804
Cash and cash equivalents, end of period		23 359	5 945	23 359	5 945

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 quarter ended on 31 March 2022 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.

In making this judgement Management of the Company has looked at a variety of factors to assist in evaluating the Group's sustainability and its ability to manage obligations due within 12 months from the date of this report (the "Period").

Based on discussions with the Buyer and the Bondholders management expects that a share purchase transaction between the selling shareholders and the Buyers takes place before or on 31st May 2022 and that the commitments by the Buyer under such share and purchase agreement will enable the Company to redeem the Bonds with an amount to be finally approved by Bondholders through a Written Resolution. Management is of the view that the Buyer is a reputable investor with satisfactory track record and is financially strong enough to enable the Company to pay the Redemption Amount and be able to support the operations of the Group.

Based on the above the Company has determined that there are material uncertainties about the Company and the Group's ability to continue as a going concern. These uncertainties arise, inter alia, from the volatility of hydrocarbon prices, impacts of the potential renewal of the Covid-19 pandemic, the potential decline in the Group's production and the uncertainty surrounding the outcome of the change-of-control process and ultimately servicing and repaying the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022.

The Company has examined these factors in detail and has developed a plan (the "Plan") to mitigate the uncertainty about the going concern nature of the Group.

The Plan consists of continuing to manage costs, production and capital investments so that, based on current reasonable estimates for future hydrocarbon prices, the Company and the Group has sufficient cash flow over the Period to meet its obligations, assuming that the Company reaches an accommodation with the holders of the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022 ("Bonds").

Given the Company's ongoing strategic review process and ongoing dialogue with its various stakeholders, the Company is of the opinion that it is reasonable to believe that (a) the Plan can be effectively implemented and (b) that the Plan can mitigate the conditions that raise uncertainty about the Group's ability to continue as a going concern over the Period.

However, the Company recognizes the inherent uncertainty in the Company's future outlook given the various sources of uncertainty detailed above, as well as the inherent risks in the Company's business and the fact that a long-term accommodation with the holders of the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022 has not yet been agreed. As such, the Company recognizes that a number of drivers, many of which are outside of the Company's control, can lead to downside outcomes, which collectively create a material uncertainty regarding the Group's ability to continue as a going concern.

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.

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.

Hedge accounting

The Group may hedge sales price using forward commodity sale contracts. The forward contracts do not result in physical delivery of gas but are designated as cash flow hedges to offset the effect of price changes in natural gas.
There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date).
The effective portion of the gain or loss on the hedging instrument is recognised in the cash flow hedge reserve (through Other Comprehensive Income), while any ineffective portion is recognised immediately in the statement of profit or loss.
The amount accumulated in Cash-flow hedge reserve is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.
When a contract is accounted for as a hedge of a highly probable future transaction, the cash flows of the contract are classified in the same manner as the cash flows of the future transaction being hedged (in this case Sales revenue).

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 was performed until end of August 2020 by a customer of the Group for both the gas sold to that customer and sold to third parties for the amount of gas, the processing of which was not feasible at the gas plants owned by the Company.

In the first case processor took control of the condensate and gas at the gathering station. In this case the processing fees were reflected as a reduction of the transaction price (rather than an expense) since the processor was not providing distinct services to the Group in exchange for those fees.
In the second case processor did not take control of the gas at the gathering station. In this case the processor was a service provider. The Group recorded product revenue for the sale of the processed commodities to the third-party customers. Fees paid to the processor were classified as expense. Since 31 August 2020 gas produced is processed by gas plants owned by the Company.

Note 3 Production costs

Production costs are all expenses incurred in relation to the production of hydrocarbons including materials and services used, damage compensations related to wells in production, workovers, mining royalties and write off of producing assets.

There were no write-off costs booked under production costs in Q1 2022.

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.

There was a minimal and non-material write-off under Exploration expenses in Q1 2022 related to the termination of the Békéscsaba and Körösladány concession agreements.

Note 5 Employee benefit expenses and own work capitalised

Employee benefit expenses are salaries and payroll related contributions (social security and taxes on wages and other related expenses).
Own work capitalised is salaries and payroll related contributions that are associated to capital projects and are therefore capitalized and not expensed.

Note 6a 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.

With the adoption of IFRS16 Leasing Standard from 1 January 2019, the depreciation of Rights of Use Assets is included in Depreciation whereas before the adoption of the new standard, the costs of leased assets were included in Other operating expenses.

Note 6b Impairment

The Impairment expense relates to Impairment recognised on oil and gas properties and inventory.
The wells are considered the cash-generating units for the purposes of impairment testing, which is tested annually or more frequently if there are indications that the assets might be impaired. The recoverable amounts are determined from value-in-use calculations. The value-in-use forecast takes into consideration cash flows which are expected to arise during the life of the wells.

Inventories should be measured at the lower of cost and net realizable value that is equal to the estimated selling price less costs to complete and sell.

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), IT, travel and conference expenses, bank and postal charges and other items of expenditures. Rental fees (office and warehouse, cars) are included under Depreciation beginning in 2019 with the adoption of IFRS 16 standard (please refer to Note 6). Only costs related to the leases (e.g. heating, fuel) remained in this category.

Note 8 Finance income and expense

Finance income comprises the following: interest income on investments, dividend income, gains from the 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: FX losses, 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, impairment losses recognized on financial assets and modification loss on borrowings.

Note 9 Tax

Corporate Income tax, local business tax and innovation contribution booked in Hungary for the period, and the effect of movement in deferred tax assets.

Note 10 Exploration rights

Concession fees and acquisition costs of the EX-1 and EX-5 Concession stakes in Romania and of concession rights in Hungary.

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 (gas processing plants), plus other equipment not reported under inventory.

Note 14 Other PPE

Mainly office equipment.

IFRS 16 Leases was implemented on 01/01/2019 using the modified retrospective approach. The entire effect of the transition has been taken against the opening balance of 01/01/2019.

Note 15 Goodwill

Goodwill related to the acquisition of OGD Central Kft that holds the Koros license (production licenses) in Hungary. The exploration license expired on 30 September 2019. At the end of December, 2020 the Company received 19 new and 3 expanded production licenses covering the areas of production within the expired exploration territory. The expiration of the exploration license did not affect the existing production licenses.

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. Also includes amounts disbursed by the Company's Romanian subsidiary, Sand Hill Petroleum Romania srl. ("SHPR"), to Panfora Oil and Gas srl. ("Panfora") under the Carry Financing Agreement signed with Panfora in 2016. SHPR booked full

impairment on this receivable in its 2020 and 2021QTR4 accounts because recoverability of the loan is contractually tied to free cash generated from future production on the Romanian blocks.
The amount outstanding without impairment under the Carry Financing Agreement as of March 31, 2022 was EUR 5.3 million.

Further to the second amendment and restatement agreement to the bond terms for its "9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022" with ISIN NO001 0820616 funds on the Debt Service Retention Account were released to the Company in May 2020 after which the Debt Service Reserve Account has been closed.

	31-Mar-22	**31-Dec-21**
	(EUR 000s)	(EUR 000s)
Other financial assets (escrowed account, depository accounts)	108	107
Collaterals in Hungary (escrowed accounts)	1 245	1 245
Carry Financing / Panfora Oil & Gas srl.	0	0
Total	1 353	1 352

Note 17 Inventory

Raw materials (valves, pipes, etc) stored in warehouse for future use initially measured at cost, subsequent to initial recognition, inventories should be measured at the lower of cost and net realizable value that is equal to the estimated selling price less costs to complete and sell.

The cost of inventories is determined based on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, their production or transformation costs, and other costs incurred in bringing them to their existing location and condition.

Note 18 Cash and short-term deposits

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

Note 19 Share capital

Ordinary and cumulative preference shares issued.

Note 20 Share premium

Premium paid over the nominal value of the ordinary and cumulative preference shares issued.

Note 21 Interest bearing loans and borrowings

Non-current liabilities

The Company issued on April 13, 2018 a EUR 70 million senior secured callable bond maturing in 2022. Pursuant to the second amended and restated bond terms for the Bond Issue (the "Bond Terms") the Bondholders, in respect of the period from October 2019 to April 2021 shall receive the accruing interest as payment-in-kind interest ("PIK Interest") through the issuance of additional Bonds. Please see comments under Summary of 2022 QTR1 results.
The outstanding balance of the Bonds is presented as current liability in the balance sheet.

Current liabilities

The Company recognizes a right-of-use asset and lease liability in line with IFRS 16. 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. The short-term portion is reported under current liabilities.

Note 22 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 23 Trade and other payables

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

Normal trade creditors are also shown under this item.

Note 24 Loans granted

The Company's Romanian subsidiary, SHPR, entered into a Joint Operating Agreement with its partner Panfora in September 2016 (effective in January 2017) and acts as an Operator in the Romanian EX-1 Voivozi and EX-5 Adea concessions. SHPR also entered into a Carry Financing Agreement with Panfora in 2016, whereas SHPR finances Panfora's share of expenditures within the Minimum Work Program obligations up to a total of EUR 6.35 mn, which is repayable from any free cash generated by production from the licences. Company booked full impairment on this receivable in its 2020, 2021 and 2022 accounts. The amount outstanding without impairment under the Carry Financing Agreement as of March 31, 2022 was EUR 5.3 million.

Contingent liabilities

Further to the requirements set by the Hungarian Mining Law, OGDC as owner of OGD Nadudvar Kft., OGD Ujleta Kft., OGD Berettyoujfalu Kft., OGD Mogyorod Kft., OGD Nagykata Kft., OGD Ocsa Kft., OGD Tiszafüred kft, OGD Körösladány Kft., OGD Békéscsaba Kft., has put up a HUF 1 billion bank guarantee (EUR 2,704,384 as per balance sheet date) to secure certain obligations under the exploration licenses granted by the Hungarian Mining Authority.

In Q4 2018, OGDC participated in the 6th Hydrocarbons Concession round in Hungary and was awarded three blocks (Bekescsaba, Korosladany and Tiszafured). The Concession contracts for the three blocks were signed on 23 January 2019. These Concession Subsidiaries are committed to carry out a compulsory work program under the various concession agreements signed with the Hungarian Government.

An optional second phase extension for the Berettyóujfalu concession was granted and signed with the Hungarian authorities in January 2022. The extension added HUF 760 million (EUR 2 million) to the HUF 9,418 million (EUR 25.5 million) total outstanding mandatory work programs in Hungary. In respect of the Ocsa, Nagykáta and Mogyoród concession areas the Company signed in March 2022 a 2-year optional extension commencing as of the expiration of the first phase exploration periods. In return for the extension the Company's subsidiary offered to add a total of HUF 180 million (cca EUR 0,5 million) worth of mandatory work programs for all three concession areas.

In March 2022 the Management of the Company relinquished the Korosladany and Bekescsaba (Hungary) licenses. Through an agreement with the Hungarian authorities the work program items of the outstanding mandatory commitments in these two concession areas were transferred to the Berettyoujfalu and Ujleta concession companies and the concession agreements for Körösladány and Békéscsaba were terminated without any penalties. O&GD Central Kft, the sole owner of these concession companies, is planning to liquidate OGD Korosladany Concession Kft. and OGD Bekescsaba Concession Kft. From a monetary point of view this exchange of mandatory commitments resulted in a HUF 1 641 mn (EUR 4.3 mn) reduction of the outstanding mandatory work programs.

The outstanding committed amount, as of 31 March 2022, of the total compulsory work program under the various concession agreements signed with the Hungarian government is EUR 24,42 million over the duration of the concessions.

The Company’s 100% Romanian subsidiary, SHPR, is committed to carry out a work program together with its partner Panfora. SHPR and Panfora are jointly and severally liable towards the Romanian government for the work program obligations which could be up to EUR 40.5 million in total at the end of Q1 2022 (total commitment of both parties to which joint and several liability applies). The pro-rated share of SHPR for the work program obligations could be up to EUR 30.3 million in total at the end of Q1 2022.

SHPR has been provided with a parent company guarantee from the Company in favour of Panfora for its share of such obligations and has received a reciprocal parent company guarantee from Panfora’s owner.

The current deadline to complete the works for Phase I of the Exploration Period is 8 April 2025 for block EX-1 VOIVOZI and 12 April 2025 for block EX-5 ADEA.