QTR2

2022

Unaudited interim condensed consolidated financial information for

Sand Hill Petroleum B.V.

Amsterdam, 31 August 2022

Sand Hill Petroleum B.V.
Strawinskylaan 3051
1077 ZX Amsterdam
The Netherlands
Chamber of Commerce: 56038038

Important information and disclaimer

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Management Commentary

Pricing

Average gas prices increased slightly in Q2 compared to Q1 levels, while oil price increased more sharply in Q2 2022 compared to Q1 2022 and was well above Q2 2021 price level:

- Dutch TTF day ahead averaged 98.1 EUR/MWh ($33.7/mcf) for the quarter, up from 97 EUR/MWh ($35/mcf) in Q1 2022 and up from 25.2 EUR/MWh ($9.8/mcf) in Q2 2021
- Austrian VTP day ahead averaged 101.7 EUR/MWh ($32.8/mcf) for the quarter, up from 99.1 EUR/MWh ($33.6/mcf) in Q1 2022 and up from 25.3 EUR/MWh ($9.3/mcf) in Q2 2021
- Brent prices averaged $ 113.8/bbl for the quarter, up from $101.4/bbl in Q1 2022 and up from $ 68.8/bbl in Q2 2021.

Operational

Production

During Q2 2022 total daily production averaged 13.0 MMscfe/d consisting of 11.5 MMscf/d gas, 207 bpd condensate and 48 bpd oil. Production decreased by 1% compared to the previous quarter and by 14% compared to Q2 2021 because some of the wells have reached their declining phase. Production in H1 2022 was 16% lower compared to H1 2021. However, the production decline was mitigated by workovers and the installation of a new compressor in Q2. Further compressor installations are planned for Q3 2022.

Sales

Sales revenue amounted to EUR 24.4 mn in Q2 2022, almost the same as in the previous quarter. Gas sales accounted for 91% of total sales.

Sales revenue in Q2 2022 was three times higher than in Q2 2021 despite lower production but due to higher prices. Sales revenue in H1 2022 increased by 230% compared to H1 2021.

Costs and expenses

Production costs in Q2 2022, excluding mining royalties, were 5% higher than in Q1 2022 mainly due to more spending on maintenance. There were no write-off costs booked under production costs in Q2 2022.

Mining royalties decreased by 4% compared to Q1 2022 in line with lower production.

Compared to Q2 2021, production costs, excluding mining royalties, increased by 25% mainly due to more spending on production chemicals, maintenance and balancing gas. Production costs in H1 2022, excluding mining royalties, were 20% higher than in H1 2021 for the same reasons.

Royalty payments were 3.5 times higher compared to Q2 2021. Royalty increased more than revenues, because the Company's Hungarian subsidiary sold 35% of its gas based on a fixed price contract, whereas the royalty calculation formula is based on actual Dutch TTF gas price and not on realized prices. In H1 2022, royalty payments were four times higher compared to H1 2021.

Employee benefit expenses decreased by 2% compared to the previous quarter since in Q1 2022 bonus payments to non-production related employees took place.

Employee benefit expenses were 5% higher compared to Q2 2021 due an adjustment of salaries in Hungary in order to bring them in line with market. In H1 2022 employee benefit expenses increased by 10% compared to H1 2021 due to Q1 bonus payments and adjustment of salaries.

Other operating expenses were 42% higher compared to Q1 2022, mainly due to high legal fees paid in relation to the change of control process and an increase in consultancy fees.

Other operating expenses in Q2 were 53% higher than Q2 2021 expenses mainly due to higher consultancy and legal fees.
In H1 2022 other operating expenses were 42% higher than in H1 2021 for the same reasons as mentioned before plus unrecoverable VAT on bond related expenses.

There was a non-material write-off in Q2 related to the termination of the Békéscsaba concession (Hungary) agreement.

Investments

Capital expenditure amounted to EUR 0.9 mn in Q2 2022. The Group invested EUR 0.1 mn on geoscience and seismic activities, EUR 0.1 mn on exploration, appraisal, and development drilling, EUR 0.1 mn on well completions, workovers and gathering systems and EUR 0.6 mn on facilities.

Hungary

The Group did not drill any wells in Q2 2022 but continued to develop new prospects and procure drilling permits. Drilling expenses booked during the quarter are mostly related to permitting of wells planned to be drilled in the near future.

Workover projects were 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 Q3.

One of the two 2022 mandatory 3D seismic programs was completed in June, interpretation is underway. Another 3D and three 2D mandatory work programs are being planned and scheduled. The exploration team continued with the interpretation of seismic data in Hungary and planning of wells.

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 in Q1. Sand Hill Petroleum Romania srl is preparing to also resume permitting in the EX-5 block in Q3. 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

In April 2022 the insurance companies extended the current Directors Liability Insurance Policy until beginning of October 2022.

Company was not able to publish its audited consolidated annual financial statements for 2021 on 30 April 2022 due to issues related to going concern because of the change of control process. Company has announced a delay several times. Audited consolidated 2021 Annual Financial Statements were published on 8 August 2022.

On 4 June 2022 the Hungarian Government announced an increase in the rate of the mining taxes payable for the years 2022 and 2023. The increased rates shall enter into force on 1 August 2022. First increased royalty shall become payable in September 2022.

Company renewed the trading license of its UAE subsidiary, Sand Hill Services LLC, for another year expiring in June 2023.

HSE
There was no reportable high-potential HSE incident during Q2 2022.

Operational overview

Q2 2022	Sales mmscfe/d	Number of producing wells*
Koros	9	21
Ujleta	1	3
Berettyo	2	6
Penészlek	1	1

*Note: includes 7 wells with technical reserve and intermittent production

		April-22	May-22	June-22
Sales	*MMcfe/d*	13	13	13
Wells drilled	*#*	-	-	-

SUMMARY OF 2022 QTR 2 RESULTS

	30-Jun-22
	(EUR '000)
Operating profit/(loss)	21 316
Current Assets	27 527
Current Liabilities	72 970
Net Interest-Bearing debt	52 633
EBITDA (calculated for the last 12 months)	43 934
Current ratio	0.38
Leverage ratio	1.20
Liquidity	9 572

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. These discussions related to 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 would be tested 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 a transaction or the termination of the Governance Agreement.

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 share control over the Company and the Group with 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.

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, was 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) would be considered fully redeemed and the Bond Trustee would 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 was 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 would 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 redeem 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) pay 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.

However, a share purchase agreement was not signed on 31 May 2022 therefore the Bondholders announced on 1 June 2022 that they wished to continue to extend the Maturity Date to 30 September 2022 (the "New Maturity Date") conditional upon:
a) that the Company by no later than 10 June 2022 partially redeems the Bonds with an amount of EUR 3 million, together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount;
b) that a share purchase agreement regarding the sale of the shares in the Company has been signed no later than 22 June 2022; and
c) that the Bondholders no later than 30 June 2022, by way of a Written Resolution have approved the mechanics and amount, together with cost accrued for the Bond Trustee, applicable to finally redeem the bonds.

The Company made the EUR 3 million partial payment before 10 June 2022 together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount as required under the written resolution made by the Bondholders published on 1 June 2022. The other conditions were not met. After payment of the EUR 3 million partial redemption the outstanding amount of the Bonds was equivalent to EUR 57,881,627.

On 28 June 2022 Bondholders announced that, in order to facilitate a share sale process and final redemption of the Bonds, they were of the view that it was in the best interest of the Bondholders to continue to extend the Maturity Date to 30 September 2022 (the "New Maturity Date") conditional upon:

that a share purchase agreement regarding the sale of the shares in the Company be signed no later than 12 July 2022; and that the Bondholders no later than 19 July 2022, by way of a Written Resolution approve the mechanics and amount, together with cost accrued for the Bond Trustee (including legal and financial advisor costs), applicable to finally settle the Bonds.

The above deadlines were amended by Bondholders on 15 July 2022, 28 July 2022, 1 August 2022 and 8 August. As per their decision of 8 August 2022 Bondholders decided to extend the above deadlines to 31 August 2022 and 7 September 2022 respectively.

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 Q3 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

CONDENSED

CONSOLIDATED

QTR 2 2022

FINANCIAL

INFORMATION

WITH NOTES

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

	notes	***2022.01.01-2022.06.30 unaudited***	***2021.01.01-2021.06.30 unaudited***	***2022Q2***	***2021Q2***
Revenue	2	49 173	14 919	24 433	7 973
Other income		36	42	20	24
Own work capitalised	5	167	295	83	198
Production costs	3	-17 016	-6 776	-8 432	-3 593
-out of which write-off of Producing assets		*0*	*0*	*0*	*0*
Exploration expenses	4	-114	-43	-79	-32
Impairment	6b	-211	-192	-100	-70
Employee benefit expenses	5	-1 850	-1 687	-917	-872
Depreciation	6a	-5 493	-6 090	-2 754	-3 033
Other operating expenses	7	-3 376	-2 374	-1 986	-1 289
Operating profit		**21 316**	**-1 906**	**10 268**	**-694**
Finance income	8	140	125	68	42
Finance expense	8	-3 898	-4 493	-1 645	-2 269
Profit before income tax		**17 558**	**-6 274**	**8 691**	**-2 921**
Income tax expense	9	-1 873	-347	-935	-186
Profit for the period		**15 685**	**-6 621**	**7 756**	**-3 107**
Other comprehensive income		-8	197	0	13
Total comprehensive income		**15 677**	**-6 424**	**7 756**	**-3 094**

Consolidated unaudited Statement of Financial Position

(In EUR 000's) ***Non Current Assets***	***notes***	***2022.06.30 unaudited***	***2021.12.31 audited***
Exploration rights	10	5 783	5 992
Exploration and Evaluation Assets	11	23 453	22 994
Assets in Development	12	6 099	7 077
Producing Assets	13	86 678	89 769
Other property, plant and equipment	14	1 309	1 499
Goodwill	15	7 529	7 529
Other intangible assets		1 271	1 321
Deferred tax assets		601	613
Other financial assets	16, 24	1 266	1 264
Total non-current assets		**133 989**	**138 058**
Current assets			
Inventories	17	4 890	4 278
Trade and other receivables		12 687	13 511
Income tax receivable		378	282
Derivative financial assets		0	0
Other current financial assets		0	88
Cash and short-term deposits	18	9 572	15 893
Total current assets		**27 527**	**34 052**
Total assets	-	**161 516**	**172 110**

Equity and liabilities	***notes***	***2022.06.30 unaudited***	***2021.12.31 audited***
Share capital	19	234	234
Share premium	20	194 163	194 163
Retained earnings		-125 820	-141 505
Cash-flow hedge reserve		0	0
Translation difference		11 029	11 037
Total equity		**79 606**	**63 929**
Non-current liabilities			
Interest-bearing loans and borrowings	21	0	50
Deferred tax liabilities		0	0
Provisions	22	8 940	8 881
Total non-current liabilities		**8 940**	**8 931**
Current liabilities			
Trade and other payables	23	1 733	3 034
Income tax payable		2 059	927
Taxes and mining royalties payable		6 403	6 842
Interest-bearing loans and borrowings	21	62 437	88 085
Provisions	22	338	362
Total current liabilities		**72 970**	**99 250**
Total liabilities		**81 910**	**108 181**
Total equity and liabilities	-	**161 516**	**172 110**

Consolidated Statement of Cash Flows

(In EUR '000)	notes	*2022.01.01-2022.06.30 unaudited*	*2021.01.01-2021.06.30 unaudited*	*2022Q2*	*2021Q2*
Profit before income tax from operations		**17 558**	**-6 274**	**8 691**	**-2 921**
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation, depletion and amortisation		5 493	6 090	2 754	3 033
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		10	0	3	0
Impairment of exploration and evaluation assets		62	5	29	5
Impairment of other assets		149	187	70	65
Reversal of previously impaired assets		0	0	0	0
Unwinding of discount on decommissioning		58	64	29	64
Utilisation of decommissioning provision		0	0	0	0
Interest expenses and incomes		3 629	4 115	1 484	2 106
FX effects		0	15	4	13
Other non-cash items		-29	-5	-29	-2
Working capital adjustments:					
Change in trade and other receivables		826	838	1 499	1 029
Change in inventories		-612	736	-59	757
Change in trade and other payables		-1 763	1 270	-1 087	1 412
Income tax paid		-823	-660	-531	-284
Net cash flows from operating activities		**24 558**	**6 380**	**12 857**	**5 276**
Cash flows from investing activities					
Expenditures on E&E and oil&gas assets		-1 428	-5 074	-919	-4 197
Expenditure on other PPE		-29	-4	-23	-2
Expenditure on exploration rights		0	0	0	0
Expenditure on other intangible assets		0	-1	0	0
Restricted cash decrease (increase)		85	-22	87	39
Loans granted	24	-17	-61	-4	-2
Net cash used in investing activities		**-1 389**	**-5 161**	**-859**	**-4 162**
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		-22 201	-181	-22 100	-76
Interest paid		-7 296	-2	-3 691	-1
Net cash (used in) from financing activities		**-29 497**	**-183**	**-25 791**	**-77**
Increase/(Decrease) in cash		-6 328	1 036	-13 793	1 037
Translation difference		7	145	5	3
Cash and cash equivalents, beginning of period		15 893	5 804	23 359	5 945
Cash and cash equivalents, end of period		9 572	6 985	9 572	6 985

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 30 June 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 the analysis, the Company has identified events and circumstances that could create serious uncertainty about the Company's ability to continue as a going concern and concluded that material uncertainty exists. These events and circumstances are related to, inter alia, the volatility of hydrocarbon prices caused mainly by the geopolitical change related to the ongoing Ukrainian-Russian war, the royalty related measures taken by the Hungarian Government, the potential decline in the Group's production, the potential change-of-control (a potential change in the ownership of the Company's shares) as a result of the Company's ongoing strategic review process, the mandatory work-program related investment commitments in the countries where the Group operates, and the requirement of repaying the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022 ("Bonds").

The Company believes that it will be able to generate sufficient cash during the Period to meet all the operational obligations arising out of the mandatory work-program related investment commitments and accommodate the increased royalty measures introduced by the Hungarian Government as of August 2022. However, Management recognizes that material uncertainty exists due to significant unpredictability with regards to the ability to repay the outstanding Bonds of EUR 63.7 million including all amounts and costs outstanding as of 1 August 2022.

On 11 July 2022, in order to support the going concern nature of the Company, the Company has received a letter from Nordic Trustee AS, representative of the Bondholders, stating that the Bondholders shall continue to support a sale/debt restructuring of the Company within the period ending 30 September 2023.

Based on discussions with the Bondholders' advisors management expects that a share purchase transaction between the selling shareholders and a Buyer (buyer of the shares of SHP BV) shall take place before or on 30 September 2022 and that the commitments by a Buyer under such share and purchase agreement will enable the Company to redeem the Bonds in an amount to be finally approved by Bondholders through a Written Resolution.

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 Q2 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 non-material write-off under Exploration expenses in Q2 2022 related to the termination of the Békéscsaba concession based license.

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 2021 and 2022 H1 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 June 30, 2022 was EUR 5.4 million (incl. capitalised interest).

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.

	30-June-22	**31-Dec-21**
	(EUR 000s)	(EUR 000s)
Other financial assets (escrowed account, depository accounts)	18	19
Collaterals in Hungary (escrowed accounts)	1 248	1 245
Carry Financing / Panfora Oil & Gas srl.	0	0
Total	1 266	1 264

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

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.

The Company issued on April 13, 2018 a EUR 70 million senior secured callable bond maturing in April 2022. The outstanding balance of the Bonds is presented as current liability in the balance sheet.

Please see comments under Summary of 2022 QTR2 results.

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 June 30, 2022 was EUR 5.4 million (incl. capitalised interest).

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 2,518,638 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 30 June 2022, of the total compulsory work program under the various concession agreements signed with the Hungarian government is EUR 21,79 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 40.44 million in total at the end of Q2 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 30.27 million in total at the end of Q2 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.